United Nations

United Nations Joint Staff Pension Board

Report of the United Nations Joint Staff Pension Board

Sixty-fifth session
(26 July–3 August 2018)

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Note

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Contents

Chapter | Page

Abbreviations 6

I. Introduction 7

II. Overview of decisions taken by the Board 9

A. Recommendations and decisions of the Board that require action by the General Assembly 9

B. Information provided to the General Assembly on other action taken by the Board 9

III. Summary of the operations of the Fund for the biennium ended 31 December 2015 12

IV. Opening of the session 13

A. Statement by the Chief Executive Officer 13

B. Statement by the Representative of the Secretary-General 14

C. Statement by the Chair of the Board 14

D. Declaration of the Board members on confidentiality and conflict of interest 14

V. Decisions of the General Assembly at its seventy-second session 16

VI. Actuarial matters 17

A. Thirty-fourth actuarial valuation of the Fund as at 31 December 2017 17

B. Report of the Committee of Actuaries 26

C. Membership of the Committee of Actuaries 29

D. Contract for Services of the consulting actuary for the period from 2019 to 2026 30

VII. Investments of the Fund 31

A. Management of the investments of the Fund: sustainable investing practices 31

B. Membership of the Investments Committee 41

C. Status of implementation of the information and communications technology strategy of the Office of Investment Management 42

D. Progress report on risk management and compliance 44

VIII. Medical matters: report of the medical consultant (rules of procedure, rule D.3) 46

IX. Financial matters 48

A. Financial statements for the year ended 31 December 2017 48

B. Changes to the budget process of the Fund 51

X. Administrative matters 53

A. Lessons learned from the end-to-end review of the separation-to-benefit process 53

B. Status of the information and communications technology systems and initiatives 55
C. Status report on the Emergency Fund 59
D. Amendment to provisional payments mechanism 60
XI. Audit 62
A. Report of the Audit Committee 62
B. Membership of the Audit Committee 65
C. External audit 66
D. Office of Internal Oversight Services 69
E. Office of Internal Oversight Services audit of the governance structure of the Pension Board 71
XII. Governance matters 76
A. Report of the Assets and Liabilities Monitoring Committee 76
B. Membership of the Assets and Liabilities Monitoring Committee 79
C. Strategic framework of the Fund for the biennium 2016–2017: update on indicators 80
D. Self-evaluation survey of the Board 80
E. Appointment of the Deputy Secretary/Deputy Chief Executive Officer 80
F. Appointment and terms of reference of the search committee for the Secretary/Chief Executive Officer 81
G. Representation of retirees on the Board 82
XIII. Benefit provisions of the Fund 84
A. Reports on the monitoring of the impact of currency fluctuations on pension benefits of the Fund and the application of paragraph 26 of the Pension Adjustment System 84
B. Report on the International Civil Service Commission study of pensionable remuneration 84
C. Review of the provisions of article 24 of the Regulations of the Fund to allow for restoration of deferred retirement benefits 85
D. Adoption of deadlines for requests and claims under the Regulations and Administrative Rules of the Fund 86
E. Changes to the Regulations and rules of procudure of the Fund 86
F. Amendment to rule C.1 of the rules of procedure of the Fund 87
XIV. Other matters 89
A. Judgments of the United Nations Appeals Tribunal of interest to the Board 89
B. Report of the 200thmeeting of the Standing Committee 90
C. Election of members of the Standing Committee (rules of procedure, rule B.1) 90
D. Selection of the members of the Budget Working Group for the review of the 2020 budget 90
E. Application for membership in the Fund 91
F. Transfer agreements 91

G. Venue and dates of the sixty-fourth session of the Pension Board ... 92
H. Other business ... 93

Annexes

I. Member organizations of the United Nations Joint Staff Pension Fund ... 94
II. Membership of the United Nations Joint Staff Pension Board and attendance at the sixty-fifth session ... 95
III. Membership of the Standing Committee ... 100
IV. Statement of the actuarial sufficiency as at 31 December 2017 of the United Nations Joint Staff Pension Fund to meet the liabilities under article 26 of the Regulations ... 101
V. Statement of the actuarial position of the United Nations Joint Staff Pension Fund as at 31 December 2017 ... 102
VI. Membership of the Committee of Actuaries ... 103
VII. Membership of the Investments Committee ... 104
VIII. Financial statements for the year ended 31 December 2017 ... 105
IX. Report of the Board of Auditors on the financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2017: audit opinion ... 180
X. Long-form report of the Board of Auditors on the financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2017 ... 183
XI. Recommendations to the General Assembly for amendments to the Regulations of the United Nations Joint Staff Pension Fund ... 226
XII. Amendments to the rules of procedure of the United Nations Joint Staff Pension Fund ... 233
XIII. Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and officials of the African Development Bank ... 234
XIV. Statements delivered to the United Nations Joint Staff Pension Board at its sixty-fifth session ... 239
XV. Membership of the Audit Committee ... 246
XVI. Membership of the Assets and Liabilities Monitoring Committee ... 247
XVII. Statements delivered to the United Nations Joint Staff Pension Board on the report of the Office of Internal Oversight Services on its audit of the governance structure of the Pension Fund and related processes ... 248
XVIII. Draft resolution proposed for adoption by the General Assembly ... 294
XIX. Notes submitted by representatives of the United Nations participants and the Federation of Associations of Former International Civil Servants on the representation of retirees on the Pension Board ... 296

Abbreviations

AFICS	Association of Former International Civil Servants
CCISUA	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System
CEB	United Nations System Chief Executives Board for Coordination
FAFICS	Federation of Associations of Former International Civil Servants
FAO	Food and Agriculture Organization of the United Nations
FICSA	Federation of International Civil Servants' Associations
HLCM	High-level Committee on Management of CEB
IAEA	International Atomic Energy Agency
IAS	International Accounting Standard
ICAO	International Civil Aviation Organization
ICCROM	International Centre for the Study of the Preservation and the Restoration of Cultural Property
ICSC	International Civil Service Commission
ICT	Information and communications technology
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMO	International Maritime Organization
IOM	International Organization for Migration
IPSAS	International Public Sector Accounting Standards
ISAE	International Standard on Assurance Engagements
ISO	International Organization for Standardization
ITU	International Telecommunication Union
OIOS	Office of Internal Oversight Services
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNSERV	United Nations International Civil Servants Federation
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Trade Organization

Chapter I

Introduction

1. The United Nations Joint Staff Pension Fund was established in 1949, by a resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their services with the United Nations, under Regulations that, since then, have been amended at various times.

2. As an independent inter-agency entity, the Fund operates under its own Regulations as approved by the General Assembly and, in accordance with its governance structure, is administered by the United Nations Joint Staff Pension Board, which currently consists of 33 members, representing the 23 member organizations listed in annex I to the present report. One third of the Board members are chosen by the General Assembly and the corresponding governing bodies of the other member organizations, one third by the executive heads of those organizations and one third by the participants in the Fund. The Board reports to the General Assembly on the operations of the Fund and on issues related to the management of its investments. When necessary, it recommends amendments to the Regulations and to the Fund's pension adjustment system, which govern, inter alia, the rates of contribution by the participants (currently 7.9 per cent of their pensionable remuneration) and by the organizations (currently 15.8 per cent), eligibility for participation and the benefits to which participants and their dependants may become entitled. Expenses incurred in the administration of the Fund — principally, the cost of its central secretariat in New York and its office in Geneva, and the expenses of managing its investments — are met by the Fund.

3. The present report is submitted by the Board following its sixty-fifth session, held from 26 July to 3 August 2018 at the headquarters of the Food and Agriculture Organization of the United Nations, in Rome. The members, alternate members and representatives accredited to the session of the Board, the Chair and other officers elected by the Board, and those who attended, are listed in annex II.

4. The major items addressed by the Board were: (a) actuarial matters, including the results of the thirty-fourth actuarial valuation of the Fund as at 31 December 2017 and the report of the Committee of Actuaries; (b) the management of the investments of the Fund, including the report by the Representative of the Secretary-General for the investment of the assets of the Fund on investment performance for the one-year period ended 31 December 2017, and the membership of the Investments Committee; (c) the reports of the Assets and Liabilities Monitoring Committee and the Audit Committee; (d) the reports of the Board of Auditors and OIOS; (e) the report on the OIOS comprehensive audit of the governance structure and related processes of the United Nations Joint Staff Pension Board; (f) possible changes to the Regulations and Administrative Rules with respect to technical changes necessary to coordinate provisions as a result of past changes in the Regulations; (g) application for membership in the Pension Fund; and (h) transfer agreements.

5. The Board examined and approved the financial statements and schedules of the Fund for the year ended 31 December 2017.

6. Other items considered by the Board and included in the present report were: (a) the status report on the Emergency Fund; (b) the report of the medical consultant; (c) the status of ICT systems; (d) lessons learned from the end-to-end review of the separation-to-benefit process; and (e) the application of paragraph 26 of the pension adjustment system.

7. The membership of the Committee of Actuaries, established under article 9 of the Regulations, is shown in annex VI.

8. The membership of the Investments Committee, established under article 20 of the Regulations, is shown in annex VII.

9. The membership of the Audit Committee, established under appendix 4 to the rules of procedure of the Fund, is shown in annex XVI.

10. The membership of the Assets and Liabilities Monitoring Committee, established under appendix 5 to the rules of procedure of the Fund, is shown in annex XVI.

11. Chapter II provides an overview of the decisions taken by the Board at its sixty-fifth session and chapter III provides a summary of the operations of the Fund for the biennium ended 31 December 2017. Chapters IV to XIV address issues on which action is required by the General Assembly, as well as matters about which the Board informs the Assembly. The salient observations, conclusions and recommendations set out in the present report are highlighted in bold print.

12. A draft resolution for the consideration of the General Assembly is contained in annex XVIII.

Chapter II

Overview of decisions taken by the Board

A. Recommendations and decisions of the Board that require action by the General Assembly

13. The following recommendations and decisions taken by the Board at its sixty-fifth session require action by the General Assembly:

(a) The Board recommended that the General Assembly admit the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization to membership in the Fund, with effect from 1 January 2019;

(b) The Board approved, subject to the concurrence of the General Assembly, the United Nations Joint Staff Pension Fund-African Development Bank transfer agreement set out in annex XIII to the present document;

(c) The Board approved the inclusion in article 4 of the Regulations of a provision that it shall adopt its own rules of procedure, as stated in rule A.5 of the rules of procedure of the Fund;

(d) The Board approved a change to article 6 of the Regulations to align it with rule C.1 of the rules of procedure;

(e) The Board approved amendments to articles 30 and 32 of the Regulations concerning deferred retirement benefits and deferment of choice of benefit;

(f) The Board approved a new provision in article 46 of the Regulations that limits the period for claims to a maximum of 10 years for lump-sum and monthly periodic benefits where it is clear that payment has been made, as well as an amendment to article 46 (e) of the Regulations and a change in the title of the article to include the limitation on claims;

(g) The Board approved an amendment to article 48 of the Regulations to clarify the scope of the jurisdiction of the United Nations Appeals Tribunal in relation to the Fund's review and appeals procedure;

(h) The Board requested the General Assembly to acknowledge that, in order to effect a change from a biennial to an annual budget for the Pension Fund on a trial basis, beginning with the budget for the year 2020, an exception to article 15 (b) of the Regulations of the Fund would be required. Such an exception will be subject to the follow-up review by the Secretary-General in 2022 and to the review by the General Assembly at its seventy-seventh session.

B. Information provided to the General Assembly on other action taken by the Board

14. The General Assembly may wish to take note of the following information on items that were considered by the Board at its sixty-fifth session:

(a) The Board recalled that at its seventy-second session the General Assembly had requested the Secretary-General to prepare a comprehensive analysis of the services provided by the Fund on behalf of the United Nations and vice versa, with a view to putting in place a cost-sharing agreement which better reflected reality (resolution 72/262).The Board noted that the United Nations Secretariat would prepare the comprehensive analysis and would consult with the secretariat of the Pension Fund, as appropriate;

(b) The actuarial valuation of the Fund, performed as at 31 December 2017, revealed a small deficit of 0.05 per cent of pensionable remuneration, compared with the surplus of 0.16 per cent of pensionable remuneration revealed by the 2015 actuarial valuation. The Board took note of the valuation results and welcomed the fact that the Fund remained near actuarial balance, with a small deficit as at 31 December 2017;

(c) With respect to the Fund's liabilities on a plan-termination basis, as at 31 December 2017 the Fund was in a soundly funded position at 139.2 per cent, assuming future expected cost-of-living adjustments are not taken into account. Taking into account future expected cost-of-living increases, the funded ratio was 102.7 per cent. With reference to article 26 of the Regulations, there is no requirement that deficiency payments be made by member organizations;

(d) The Board considered the membership of the Committee of Actuaries and recommended that the Secretary-General reappoint two members of the Committee. The Board decided to appoint a new ad hoc member. The Board decided to defer the consideration of a possible alignment of articles 9 and 20 of the Regulations and section E of the Rules of Procedure concerning ad hoc members to its next session, in 2019;

(e) The Board concurred with the Secretary-General's decision to convert the ad hoc appointments of two Investments Committee members to regular appointments subject to approval by the General Assembly;

(f) The Board took note of the unqualified audit opinion of the Board of Auditors on the financial statements for the year ended 31 December 2017;

(g) The Board discussed a proposal by the representatives of the United Nations participants for significant changes to a decision taken by the Board during its 2016 session and decided not to amend the current provisional payments mechanism;

(h) The Board was presented with the report of the Audit Committee, which summarized the major findings and conclusions of the Committee. The Board endorsed the report, including its recommendations. The Board endorsed the nominations of new Audit Committee members;

(i) The Board took note of the OIOS report on the internal audit activities of the Fund for the year ended 30 June 2018;

(j) The Board considered the OIOS comprehensive audit of the governance structure and related processes of the United Nations Joint Staff Pension Board and decided to submit its comments to OIOS and the Independent Audit Advisory Committee;

(k) The Board was presented with the report of the Assets and Liabilities Monitoring Committee, which summarized the major findings and conclusions of the Committee. The Board endorsed the report, including its recommendations. The Board approved the nominations for Committee members;

(l) After consideration of the approach and process followed, the Board decided by consensus to recommend to the Secretary-General, in accordance with article 7 (a) of the Regulations of the Fund, the appointment of a Deputy Chief Executive Officer of the Fund and a Deputy Secretary of the Board for a first term of five years;

(m) The Board decided to establish the Succession Planning Committee, the purpose of which on an ongoing basis would be to assist the Board in selecting senior staff, particularly the Chief Executive Officer and Deputy Chief Executive Officer, for recommendation to the Secretary-General for appointment; to develop evaluation methodologies for both positions; and to take a long-term strategic approach to succession planning in the senior executive levels of the Fund;

(n) The Board was presented with an update through 31 December 2017 of the effects of currency fluctuations on the benefits payable in countries covering 90 per cent of the benefits payable as local currency track benefits. The Board noted that the local currency track pension amounts continued to be maintained at or near the targeted levels for the countries under review and agreed that going forward the report would be submitted every two years;

(o) The Board took note of the suspension of the local currency track benefit in the Syrian Arab Republic as from 1 January 2018;

(p) The Pension Board took note of the ICSC recommendations to the General Assembly with regard to the changes to pensionable remuneration for both Professional and General Service staff, as well as their limited effects on the long-term funding and administration of the Pension Fund;

(q) Following the discussion by the Board and taking into account the decision by the General Assembly in its resolution 59/269 that it would not consider any further proposals to enhance or improve pension benefits until action was taken on the issues contained in its resolution 57/286 to reverse certain benefit changes taken as cost-saving measures, the Board decided that the Secretary/Chief Executive Officer should undertake a study of possible options for allowing restoration of deferred retirement benefits that would be cost-neutral for the Fund;

(r) The Board approved a provision in rule A.5 of the rules of procedure that would codify the practice of signing the declaration on confidentiality and conflict of interest by all Pension Board members and others attending Pension Board sessions.

Chapter III

Summary of the operations of the Fund for the biennium ended 31 December 2017

15. During the biennium ended 31 December 2017, the number of participants in the Fund decreased from 126,892 to 126,736, or 0.1 per cent,[1] and the number of periodic benefits in award increased from 71,474 to 78,247, or 9.4 per cent.[2] As at 31 December 2017, the breakdown of the periodic benefits in award was as follows: 29,117 retirement benefits, 16,560 early retirement benefits, 7,592 deferred retirement benefits, 12,730 widows' and widowers' benefits, 10,629 children's benefits, 1,583 disability benefits and 36 secondary dependants' benefits. In the course of the biennium, 15,344 lump-sum withdrawal and other settlements were paid. A breakdown by member organization of participants and of benefits awarded during the year ended 31 December 2017 is shown in tables 1 and 2 of the annex to the notes to the financial statements (see annex VIII).

16. During the two-year period from 1 January 2016 to 31 December 2017, the net assets available for benefits increased from $52,266,855,000 to $64,365,908,000 (see annex VIII, statement of net assets available for benefits). The investment income of the Fund during the period amounted to $12.9 billion, and contributions and other income amounted to $4.7 billion, for a total of $17.6 billion in income to the Fund.

17. Benefit payments and expenses for the two-year period ended 31 December 2017 amounted to $5.3 billion.

18. Benefit payments exceeded contributions for the two-year period ended 31 December 2017 by $505 million.

19. The Fund's overall investment performance for the calendar year ended 31 December 2017 was 18.6 per cent, and for the year ended 31 December 2016 it was 5.2 per cent, as compared with the Fund's performance benchmarks for the same periods of 18.1 per cent and 6.9 per cent, respectively.

20. A summary of the Fund's investments as at 31 December 2017 and their market values are given in annex VIII, statement of net assets available for benefits.

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[1] The methodology used for the calculation of participants was changed as from 31 December 2017. According to the prior methodology, the number of participants at the end of 2017 would have been 129,354, amounting to a 1.9 per cent growth over the biennium.

[2] The methodology used for the calculation of periodic benefits was changed as from 31 December 2017. According to the prior methodology, the number of benefits at the end of 2017 would have been 74,092, amounting to a 3.7 per cent growth over the biennium.

Chapter IV

Opening of the session

A. Statement by the Chief Executive Officer

21. The statement was delivered by the Deputy Chief Executive Officer. In his opening statement, the Deputy Chief Executive Officer commented on the Fund's priorities, key indicators and main initiatives. He emphasized that the Fund was in a very good financial position. He noted that the Fund had received an unqualified opinion on its 2017 financial statements. Following the message from the Board that the Fund should focus on core activities, the Fund had focused on standardization and stabilization. All beneficiaries had been paid the correct amount and on time. The Fund was processing some 80 per cent of initial benefit cases within the same month that all documents were received.

22. The Deputy Chief Executive Officer recalled that the latest actuarial valuation, as at 31 December 2017, had revealed a small deficit of 0.05 per cent of pensionable remuneration, which was well within the corridor of plus or minus 2 per cent of pensionable remuneration recommended by the Fund's actuaries.

23. The Deputy Chief Executive Officer informed the Board that the number of retirees/beneficiaries serviced by the Fund had increased by 86 per cent since 1998, while the number of active participants had increased by 76 per cent over the same period. This showed that the Fund was maturing. Accordingly, investment performance of 3.5 per cent annual real rate of return (net of inflation) in United States dollar terms on a long-term basis was key to remaining solvent.

24. The Deputy Chief Executive Officer reported that the number of new benefits processed monthly (approximately 1,000) remained significantly above the long-term average (800). The Fund was working towards the target of processing 75 per cent of initial separations within 15 business days. In June, 64 per cent of initial separations were processed within 15 business days. The median processing time was 12 business days.

25. The Deputy Chief Executive Officer also briefed the Board on the initiatives implemented to establish a new client services paradigm, which had resulted in the closing of the critical audit recommendation on the topic. The opening of new call centres had allowed the Fund to respond to 95 per cent of calls received, while 100 per cent of death-related calls were answered through a dedicated phone number. He noted that the Fund was in the process of establishing toll-free numbers in many countries. Eighty per cent of emails were handled within 15 business days. The Fund had added several features to the member self-service module, which currently had nearly 90,000 registered members. The Fund had also expanded its outreach efforts. The Deputy Chief Executive Officer noted the positive feedback he had received from the various AFICS representatives.

26. With respect to challenges and priorities, the Deputy Chief Executive Officer highlighted the need to reach the target of 75 per cent of initial benefits processed within 15 business days of receipt of all documents. To that end, the Fund would be focusing on the stabilization of the Integrated Pension Administration System. He noted that the Fund had started a review to determine how the new functionalities offered in the upgraded version of the System would address and resolve the limitations and challenges experienced to date. The Fund expected to propose an upgrade as part of the next budget. The Deputy Chief Executive Officer also highlighted the need to improve interfaces with member organizations. In this context, he explained that the Fund was working with the United Nations Secretariat to create an interface for data exchange between Umoja and the Integrated Pension

Administration System. Furthermore, in view of the fact that the Fund dealt with 78,000 retirees in 130 countries, the certificate of entitlement process needed to be overhauled.

27. The Deputy Chief Executive Officer noted that the meetings with FAFICS and the Pension Board had provided good feedback on what clients expect from the Fund. He also highlighted the need to strengthen relationships with stakeholders such as OIOS, the Office of Investment Management, the United Nations and staff associations. He explained that the Fund required strong leadership to address the challenges and noted that succession planning continued to be recognized as a high risk for the Fund.

B. Statement by the Representative of the Secretary-General

28. The Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund made a statement, the full text of which is reproduced at annex XIV. The Representative of the Secretary-General shared with the Board the decision of the Secretary-General to rename the Investment Management Division as the Office of Investment Management effective immediately.

C. Statement by the Chair of the Board

29. The Chair made a statement to the Pension Board, the full text of which is reproduced in annex XIV. The Chair presented a high-level analysis of the current situation of the Fund, which was in actuarial balance and operating well. He noted that there were strengths and weaknesses, with room for improvement in some areas, and stressed the need to maintain a very long-term view in order to manage the Fund not just for the current generation but for future generations. He noted that the processing and payment backlogs that arose from the necessary implementation of the Integrated Pension Administration System were now well behind the Fund. However, although the Fund was in actuarial balance, payments to beneficiaries exceeded the contributions received by close to $300 million per annum. He emphasized that, although this was characteristic of a mature Fund, ways must be found to mitigate the effects of it. The Chair also noted some negative practices that had emerged in recent years by a very small minority that had created a false narrative and potentially jeopardized the good governance of the Fund. He stated that it was imperative to stop these practices immediately. The Chair also described important issues that the Board should prioritize and that would be addressed during the session. He indicated how he proposed to handle the full agenda before the Board. Finally, he requested a minute's silence for colleagues who were no longer with us, who once served under the United Nations flag beside us in the service of humanity, a tradition which he hoped the Board would continue.

D. Declaration of the Board members on confidentiality and conflict of interest

30. It was recalled that in 2015 the Board had approved a declaration on confidentiality and conflict of interest for all members to sign. The secretariat of the Fund circulated a note suggesting that, in keeping with best practices, the Board might wish to review the provisions contained in the declaration to assess its adequacy and to compare it to industry standards. The secretariat noted that it was important to balance the confidentiality requirement with the need to communicate with constituents, as this had been a concern raised by some Board members. It was further

clarified that the Board was not being asked to approve changes to the existing declaration at this session; the note simply served to highlight some issues and best practices which the Board might wish to explore.

31. A member expressed concern that the provisions of confidentiality could be interpreted as preventing him from informing and seeking input from constituents, thereby undermining transparency and his ability to discharge his fiduciary duty (see also para. 432).

Chapter V

Decisions of the General Assembly at its seventy-second session

32. At its seventy-second session, in 2017, the General Assembly considered the report of the United Nations Joint Staff Pension Board on the administrative expenses of the United Nations Joint Staff Pension Fund (A/72/383).

33. Following its consideration of the item, the Assembly adopted resolution 72/262 A, which was generally in line with the recommendations of the Board, with the exception of some requests for posts in client services and outreach.

34. In the resolution, the General Assembly, inter alia, requested OIOS to conduct an audit of the governance structure of the Pension Board, including a review of the checks and balances between the Board and the leadership of the Fund, and to submit a report with key findings to the General Assembly at its seventy-third session, to be considered in the context of the United Nations Joint Staff Pension Fund.

35. In its report on the matter, the Advisory Committee on Administrative and Budgetary Questions recommended that the General Assembly request the Secretary-General to prepare a comprehensive analysis of the services provided by the Fund on behalf of the United Nations and vice-versa, with a view to putting in place a cost-sharing agreement which better reflected reality (see A/72/7/Add.23, para. 37). In its resolution 72/262 A, the General Assembly endorsed the Advisory Committee's recommendation.

36. **The Board noted that the United Nations Secretariat would prepare such a comprehensive analysis and would consult with the secretariat of the Pension Fund, as appropriate.**

Chapter VI
Actuarial matters

A. Thirty-fourth actuarial valuation of the Fund as at 31 December 2017

37. Article 12 (a) of the Regulations of the United Nations Joint Staff Pension Fund provides that "the Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary". The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities. The practice of the Board has been to carry out a valuation every two years.

38. The consulting actuary submitted to the Board the report on the thirty-fourth actuarial valuation of the Fund as at 31 December 2017; the previous valuation had been as at 31 December 2015 and its results had been reported to the General Assembly at its seventy-first session, in 2016. The Board also had before it the observations of the Committee of Actuaries, which had examined the valuation report prior to its submission to the Board.

Actuarial valuation bases

39. The valuation was prepared on the basis of the actuarial assumptions recommended by the Committee of Actuaries and approved by the Pension Board in 2017.

40. The actuarial assets value used for purposes of preparing the periodic actuarial valuations is calculated using a five-year smoothing methodology, subject to a limiting corridor of 15 per cent below and above the market value of the assets as of the valuation date. The Pension Board agreed with the recommendation of the Committee of Actuaries to continue the transition to the alternative actuarial asset method, which began with the actuarial valuation as at 31 December 2013. The transition schedule targets full implementation of the alternative methodology no later than the completion of the actuarial valuation effective as at 31 December 2019. For the 31 December 2017 valuation, the actuarial assets value was determined based on 25 per cent of the actuarial assets calculated under the prior methodology plus 75 per cent of the actuarial assets calculated under the alternative methodology. On that basis, the actuarial assets value was determined to be $60,419.2 million, which is 93.87 per cent of the market value of the assets as at that date ($64,365.9 million).

41. The actuarial assumptions include four sets of economic assumptions and two sets of participant growth assumptions that were used in various combinations. Valuations were performed on the basis of three sets of real rates of investment return assumptions: 4.5 per cent, 3.5 per cent and 2.5 per cent. Further, in coordination with the assumed 2.5 per cent long-term inflation assumption, the annual rates of static increases in pensionable remuneration were 3.0 per cent for all of the three sets of economic assumptions. These sets of assumptions reflect the fact that, at its meeting in 2017, the Board approved the lowering of the assumed annual rate for long-term inflation to 2.5 per cent from the 3.0 per cent assumed in the prior valuation. In conjunction with this change, the Board asked that an additional valuation be performed based on a 3.5 per cent real investment return assumption, but with an assumed 3.0 per cent long-term inflation assumption (the prior assumed rate), and an assumed annual rate of static increases in pensionable remuneration of 3.5 per cent.

42. In addition, two sets of assumptions were used to reflect changes in the projected growth in the number of future active participants: (a) positive growth of 0.5 per cent per annum over the next 10 years, with zero growth thereafter; and (b) negative growth of 1.0 per cent per annum over the next 10 years, with zero growth thereafter.

43. The Committee of Actuaries recommended, and the Pension Board agreed in 2017, that the following assumptions should be the basis for the 2017 regular valuation: a 3.0 per cent annual increase in pensionable remuneration in addition to the static scale; a 6.0 per cent nominal interest rate: a 2.5 per cent annual inflation rate with respect to increases in pensions after award; and the "10-year 0.5 per cent participant growth" assumption.

44. The sets of economic and participant growth assumptions used in the 2017 valuation are summarized in table 1, with the regular valuation basis shown in the second column of the table under assumption I.

Table 1

Economic and participant growth assumptions used in the 2017 valuation

	Assumption (percentage)			
	I[a]	*II*	*III*	*IV*
A. Economic factors				
Static increases in pensionable remuneration (in addition to real increases)	3.0	3.0	3.0	3.5
Nominal rate of interest (investment return)	6.0	7.0	5.0	6.5
Price increases (reflected in increases of pensions to beneficiaries)	2.5	2.5	2.5	3.0
Real rate of interest (investment return after inflation)	3.5	4.5	2.5	3.5
Usual designation	3.0/6.0/2.5	3.0/7.0/2.5	3.0/5.0/2.5	3.5/6.5/3.0
Cost of two-track adjustment system (2.1 per cent of pensionable remuneration)	Included	Included	Included	Included

	Assumption (percentage)	
	I[a]	*II*
B. Future growth of participant population		
For each of the first 10 years (zero growth thereafter):		
Professional staff	0.5	(1.0)
General Service staff	0.5	(1.0)

[a] Regular valuation basis.

45. The five specific combinations included in the actuarial valuation at 31 December 2017 were as follows:

(a) A.I combined with B.I (3.0/6.0/2.5 and 10-year 0.5 per cent growth in participants);

(b) A.II combined with B.I (3.0/7.0/2.5 and 10-year 0.5 per cent growth in participants);

(c) A.III combined with B.I; (3.0/5.0/2.5 and 10-year 0.5 per cent growth in participants);

(d) A.IV combined with B.I; (3.5/6.5/3.0 and 10-year 0.5 per cent growth in participants);

(e) A.I combined with B.II; (3.0/6.0/2.5 and 10-year 1.0 per cent decrease in participants).

46. The demographic and other related assumptions used for the 31 December 2017 actuarial valuation were the same for all sets of assumptions. The valuation reflected the following changes to demographic assumptions, as recommended by the Committee and approved by the Board in 2017:

(a) Adoption of new mortality tables, labelled the 2017 United Nations mortality tables, and associated tables of mortality improvements;

(b) Resetting of the period for forecasting mortality improvement for healthy pensioners and beneficiaries to 20 years from the date of the 2017 actuarial valuation, or through 2037;

(c) Modification of the assumptions regarding utilization of the commutation option to reflect emerging utilization patterns.

47. On the recommendation of the Committee of Actuaries, the Pension Board agreed that the provision for administration costs to be included in the current valuation should be based on one half of the Fund's approved budget for the biennium 2018–2019, divided by the total pensionable remuneration as at 31 December 2017. Using that methodology, the provision for administration costs included in the 31 December 2017 actuarial valuation was 0.34 per cent of pensionable remuneration.

Comparison of asset and liability measurement bases

48. It was pointed out to the Board that the determination of the Fund's liabilities and assets (and the associated funded status) varied depending on the purpose of the measurement. Four different sets of measurements were regularly determined for the Fund for the following purposes: the actuarial valuation to evaluate the adequacy of the current contribution level to meet the Fund's long-term obligations; a check of the Fund's solvency based on two calculations required under article 26 of the Regulations of the Fund; and the determination of the Fund's liability as required to be reported in the Fund's financial statements based on accounting standards under IAS 26. These measurements are summarized in table 2.

Table 2
Bases of measurement of assets and liabilities

Basis	*Definition of liabilities*	*Definition of assets*
Actuarial valuation (funding) basis	Includes liabilities attributable both to service already rendered and service not yet rendered, for current and future participants	Includes actuarial assets value (smoothed assets) plus the present value of future contributions attributable to current and future participants
Solvency bases (article 26)	Liabilities are computed on the basis that all active participants terminate employment on the valuation date and elect to receive the benefit of highest actuarial value; one measure of the liability assumes there will be future adjustments to benefits and the second measure of liability assumes no future increases	Actuarial assets value (smoothed assets)
Financial statements (in accordance with the accounting requirements under IAS 26)	Liabilities are computed based on an ongoing plan basis, including the potential to grow into more valuable benefits, but benefits are based only on service rendered to date and on pensionable remuneration and final average remuneration as computed on the valuation date	Net assets available for benefits (no asset smoothing)

Analysis of the valuation results

49. Table 3 provides the results of the thirty-fourth actuarial valuation and compares them with the results of the regular valuation as at 31 December 2015.

Table 3

Comparison of valuation results as at 31 December 2017 and 31 December 2015

		Contribution rate required (as a percentage of pensionable remuneration) to attain actuarial balance of the Fund		
Valuation date	*Valuation basis*	*Required rate*	*Current rate*	*Difference (surplus) deficit*
31 December 2017	3.0/6.0/2.5 with 10-year 0.5 per cent participant growth (regular valuation)	23.75	23.70	0.05
	3.0/7.0/2.5 with 10-year 0.5 per cent participant growth	17.31	23.70	(6.39)
	3.0/5.0/2.5 with 10-year 0.5 per cent participant growth	30.70	23.70	7.00
	3.5/6.5/3.0 with 10-year 0.5 per cent participant growth	23.71	23.70	0.01
	3.0/6.0/2.5 with 10-year -1.0 per cent participant growth	24.06	23.70	0.36
31 December 2015	3.5/6.5/3.0 with 10-year 0.5 per cent participant growth (regular valuation)	23.54	23.70	(0.16)

50. The regular valuation as at 31 December 2017 showed that the required contribution rate as at 31 December 2017 was 23.75 per cent, as compared to the current contribution rate of 23.70 per cent, resulting in a slight actuarial deficit of 0.05 per cent of pensionable remuneration. This represents an increase of 0.21 percentage points in the required contribution rate from the rate disclosed as at 31 December 2015 (i.e., an increase from 23.54 per cent to 23.75 per cent), when the valuation had revealed a surplus of 0.16 per cent. This is the second consecutive valuation that has disclosed a required contribution rate within 0.20 per cent of the actual contribution rate of 23.70 per cent of pensionable remuneration. As can be seen in table 3, under real rate of return assumptions of 4.5 per cent and 2.5 per cent, with 10-year 0.5 per cent participant growth, the results would be a surplus of 6.39 per cent and a deficit of 7.00 per cent of pensionable remuneration, respectively, which demonstrates the major effect of the real rate of return assumption over the long-term on the valuation results.

Results of valuation in dollar terms and other disclosure statements

51. In its resolutions 47/203 and 48/225, the General Assembly requested the Board to consider the form in which it presented the valuation results, taking into account, inter alia, the observations made by the Board of Auditors. The Board of Auditors had requested the Pension Board to include in its reports to the Assembly disclosures and opinions as regards the valuation results, namely, presentations of: (a) the valuation results in dollar terms; (b) a statement of sufficiency under article 26 of the Regulations of the Fund; and (c) a statement by the Committee of Actuaries and the consulting actuary on the actuarial position of the Fund, to which the Board of Auditors may refer in their observations on the accounts of the Fund.

52. Accordingly, table 4 summarizes the valuation results as at 31 December 2017, both as a percentage of pensionable remuneration and in dollar terms, under the five combinations of economic and participant growth assumptions.

Table 4
Valuation results as at 31 December 2017

	Valuation results (surplus) deficit	
Economic assumptions	*As a percentage of pensionable remuneration*	*In United States dollar terms (millions)*
3.0/6.0/2.5 with 10-year 0.5 per cent participant growth (regular valuation)	0.05	184.3
3.0/7.0/2.5 with 10-year 0.5 per cent participant growth	(6.39)	(17 955.6)
3.5/5.0/2.5 with 10-year 0.5 per cent participant growth	7.00	36 409.1
3.5/6.5/3.0 with 10-year 0.5 per cent participant growth	0.01	33.9
3.0/6.0/2.5 with 10-year -1.0 per cent participant growth	0.36	1 154.5

Note: The regular valuation as at 31 December 2015 revealed a surplus of (0.16) per cent of pensionable remuneration.

53. Table 5 provides the projected liabilities and assets of the Fund in dollar terms, as reflected in the regular valuation results as at 31 December 2017 and 31 December 2015, respectively.

Table 5
Projected liabilities and assets of the Fund

(Millions of United States dollars)

	31 December 2017	*31 December 2015*
Liabilities		
Present value of benefits:		
Payable to or on behalf of retired and deceased participants	35 335.7	30 852.4
Expected to become payable on behalf of active and inactive participants, including future new entrants	110 714.0	103 577.2
Total liabilities	**146 049.7**	**134 429.6**
Assets		
Actuarial asset value	60 419.2	52 467.8
Present value of future contributions	85 446.2	82 523.9
Total assets	**145 865.4**	**134 991.7**
(Surplus)/deficit	**184.3**	**(562.1)**

54. As they have in the past, the consulting actuary and the Committee of Actuaries stressed that care must be taken when considering the dollar amounts of the valuation results. The liabilities shown in table 5 include those for individuals who have yet to join the Fund; similarly, the assets include the contributions for future new participants. The surplus or deficit indicates only the future effect of continuing the current contribution rate under various actuarial assumptions as to future economic and demographic developments. The valuation results were highly dependent upon the actuarial assumptions used. As indicated in table 4, a deficit of 7.00 per cent of pensionable remuneration was indicated on the 3.0/5.0/2.5 valuation basis, that is, a real rate of return of 2.5 per cent. A surplus of 6.39 per cent of pensionable remuneration was indicated on the 3.0/7.0/2.5 valuation basis, or a real rate of return of 4.5 per cent. Both the consulting actuary and the Committee of Actuaries pointed out that the actuarial deficit, when expressed in dollar terms, should only be

considered in relation to the magnitude of the liabilities and not in absolute terms. The surplus of $562.1 million under the regular valuation as at 31 December 2015 represents 0.42 per cent of the Fund's projected liabilities as at that date. The deficit of $184.3 million under the current regular valuation represents 0.13 per cent of the Fund's projected liabilities.

Hypothetical projection models

55. Hypothetical models of the estimated progress of the Fund over the next 50 years were also prepared on the basis of the economic assumptions in the regular valuation, using the 10-year 0.5 per cent participant growth assumptions. The results were presented in both nominal and inflation-adjusted terms. The models showed that, based on the regular valuation assumptions, the Fund's assets would increase in real dollar terms for the entire 50-year projection period. The models also showed that assets as a multiple of annual benefit payments would decline from 23.4 to 18.5 by the end of the 50-year period. Additional models, in which the assumed real rate of return on investments ranged from 1.5 per cent to 5.5 per cent, were also prepared. The models showed that if the Fund were to earn less than the assumed 3.5 per cent real rate of return, its assets in real dollar terms would begin to decrease more rapidly (for example, after approximately 19 years under the 2.5 per cent real rate of investment return assumption).

Current value of accrued benefits under article 26 of the Regulations and International Accounting Standard 26 on accounting disclosures

56. The actuarial valuation contained the comparison required under article 26 of the Regulations of the current assets of the Fund with the value of the accrued benefits on the valuation date on a termination basis (i.e., the benefits for retired participants and beneficiaries and the benefits considered to have been earned by all current participants if their service were terminated on that date).

57. With respect to its liabilities on a plan termination basis, the Fund was in a soundly funded position, as it had been for the past fourteen valuations, if future adjustments of pensions were not taken into account. The funded ratio determined under the regular valuation basis and without future pension adjustments was 139.2 per cent. This meant that the Fund would have considerably more assets than needed to pay the benefits if no adjustments were made in pensions for changes in the cost of living. The funded position decreased considerably when account was taken of the current system of pension adjustments, including the estimated cost of the two-track system (2.1 per cent of pensionable remuneration); the current valuation indicated that under the regular valuation basis the funded ratio was 102.7 per cent. Table 6 shows the funded ratios revealed by the actuarial valuations since 1993, both with and without assuming future adjustments of pensions for inflation.

Table 6

Funded ratios from 1993 to 2017

(Percentage)

	If future pension payments are made	
Valuation as at 31 December	*Without pension adjustments*	*With pension adjustments*
1993	136.2	80.5
1995	132.4	85.1
1997	141.4	81.5
1999	180.1	113.4
2001	160.6	106.1
2003	144.5	95.4
2005	139.9	92.4
2007	146.9	95.3
2009	139.6	91.0
2011	130.0	86.2
2013	127.5[a]	91.2
2015	141.1	100.9
2017	139.2[b]	102.7

[a] The funded ratio without pension adjustments increased from 130.0 per cent to 136.9 per cent based on the 7.5 per cent nominal interest rate used for the 31 December 2011 actuarial valuation.

[b] The funded ratio without pension adjustments increased from 141.1 per cent to 145.1 per cent based on the 6.5 per cent nominal interest rate used for the 31 December 2015 actuarial valuation.

58. Actuarial liabilities are reported in the Fund's financial statements in accordance with IAS 26 on accounting and reporting by retirement benefit plans. Table 7 provides the IAS 26 accounting and reporting information as at 31 December 2017.

Table 7

Plan accounting and reporting (International Accounting Standard 26)

Actuarial present value of accumulated (promised) retirement plan benefits as at 31 December 2017[a]

	If future pension payments are made	
	Under regulations without pension adjustments[c]	*Under regulations with pension adjustments*[d]
	(millions of United States dollars)	
Actuarial value of vested benefits		
Participants currently receiving benefits	25 901.9	35 057.0
Terminated vested participants	742.3	1 278.8
Active participants	14 040.1	19 277.6
Total vested benefits	**40 684.3**	**54 613.4**
Non-vested benefits[b]	921.2	1 165.4
Total actuarial present value of accumulated plan benefits	**41 605.5**	**55 778.8**

[a] At a nominal interest rate (investment return) of 6.0 per cent and an annual inflation rate of 2.5 per cent.

[a] Results include loadings for the two-track adjustment system.

View of the Committee of Actuaries

59. In its report to the Board, the Committee of Actuaries noted that the current valuation revealed a deficit of 0.05 per cent of pensionable remuneration, a second consecutive valuation in which the Fund was disclosed to be close to actuarial balance. The Committee recalled its previous recommendation that it would be prudent to maintain an actuarial buffer (or "safety margin") of around 2 per cent of pensionable remuneration to offset the impact on the Fund's long-term solvency of financial market volatility, and to anticipate further maturing of the Fund.

60. The Committee noted that the strong investment performance in 2017, combined with the strengthening of the dollar over the biennium, largely offset the effect of the strengthened mortality basis adopted for this valuation.

61. The results of alternative sets of economic assumptions, consisting of a 4.5 per cent real rate of investment return and inflation of 2.5 per cent per annum and a 2.5 per cent real rate of investment return and inflation of 2.5 per cent per annum, clearly indicated the strong linkage between future long-term investment returns and the results of future actuarial valuations. The Committee noted that the two alternatives demonstrated that a 1 per cent difference in the real rate of investment return was equivalent to a change in the required contribution rate on the order of 6 per cent of pensionable remuneration (i.e., costs ranging from 17.3 per cent to 30.7 per cent of pensionable remuneration).

62. The Committee noted that the required contribution rate for the present participants was 29.60 per cent of pensionable remuneration. This highlighted the importance of maintaining the plan open for future generations, as their contribution was significant in lowering the overall required long-term contribution rate.

63. The Committee noted that demographic assumptions, including the adoption of the 2017 United Nations mortality table and associated tables of mortality improvements, and the resetting of the period for forecasting mortality improvements through 2037, also drove the Fund's liabilities. The Committee concluded that additional analysis and monitoring of emerging patterns in longevity assumptions could be required in the future, which could potentially change the contribution rate required for actuarial balance.

64. The Committee reviewed the funded status as measured on a solvency basis under article 26, which decreased from 141.1 per cent at the previous valuation (based on the nominal 6.5 per cent interest rate used in the 31 December 2015 actuarial valuation) to 139.2 per cent (based on the nominal 6.0 per cent interest rate used in this valuation), without application of the pension adjustment system, and increased from 100.4 per cent to 102.7 per cent when considering those adjustments. It was further noted that, had the nominal interest rate of 6.5 per cent been used in the current valuation, the funded status would have increased from 141.1 per cent to 145.1 per cent, without application of the pension adjustment system. The Committee noted that the cost-of-living and two-track adjustments assumed to apply annually to pension benefits had an impact of approximately 36 per cent on the funded status of the plan (considering the base scenario). The Committee will continue to monitor the funded status closely, in particular the impact of the cost-of-living adjustments.

65. In reviewing the long-term, year-by-year projections of cash flow completed by the consulting actuary, the Committee did not foresee liquidity constraints at this time, although investment income would increasingly be used to cover benefit payments and expenses in the future. In terms of paying benefits in the medium and short term, the Fund could meet its pension payment commitments. The Committee noted that

the projections indicated that, if the Fund earns the expected real rate of return of 3.5 per cent per year, the principal of the Fund would continue to increase in real value for the next 50 years. The Committee will continue to monitor the projections closely, taking into account both expected contributions and the continued expectation of a 3.5 per cent real rate of return on Fund assets over the long term.

Statements on the valuation results

66. The statement of actuarial sufficiency prepared by the consulting actuary and approved by the Committee of Actuaries indicates that:

> … the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as at 31 December 2017, for deficiency payments under article 26 of the Regulations of the Fund. The market value of assets as at 31 December 2017 is $64,365.9 million. Therefore, the market value of assets also exceeds the actuarial value of all accrued benefit entitlements as at the valuation date.

67. The statement of the actuarial position of the Fund, adopted by the Committee of Actuaries, is reproduced in annex V to the present report. In that statement, the Committee of Actuaries indicated that it had:

> … reviewed the results of the actuarial valuation as at 31 December 2017, which was carried out by the consulting actuary. Based on the results of the regular valuation, and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the consulting actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration was sufficient to meet the benefit requirements under the plan.

68. The Committee of Actuaries also informed the Board that it would continue to review the evolving experience of the Fund. It would submit recommendations to the Board in 2019 on the assumptions to be used in the actuarial valuation of the Fund as at 31 December 2019. The monitoring of the experience of the Fund would also include emerging pensioner mortality experience; if warranted, the Committee of Actuaries indicated that it would be possible to make interim adjustments to the mortality tables in use.

Discussion in the Board

69. Clarifications were sought from the consulting actuary and from the Rapporteur of the Committee of Actuaries on various aspects of the actuarial valuation results.

70. Overall, the Board noted that the current valuation revealed a deficit of 0.05 per cent of pensionable remuneration, compared with the surplus of 0.16 per cent revealed by the 2015 actuarial valuation. The Board noted that the increase in the deficit was largely due to the strengthening of the mortality assumptions, offset by asset performance and low inflation over the biennium. The Board also noted that this was the second consecutive valuation that had disclosed a regular valuation result close to actuarial balance.

71. The Board noted the importance of future real investment returns over the long term, at the 3.5 per cent target level, on the results of future actuarial valuations.

72. The Board also asked for clarification regarding the Fund's sensitivity to the growth or decline in the number of contributing members of the Fund. The Committee noted that that issue had been analysed and the results of the analysis had been included in the consulting actuary's report. The Fund's sensitivity was also more thoroughly examined in connection with the asset-liability management study carried

out in 2015. In the future, should additional data become available regarding a decline in the number of participants, additional studies could be completed.

73. The Board noted the increase since the previous valuation in the funded ratio under article 26 when future pension adjustments are considered. The increase was largely attributable to the increase in the actuarial value of assets over the biennium, which was greater than the increase in liabilities.

74. The executive heads commented that they were happy to note that the Fund was in a strong financial position, which was almost unheard of for a defined benefit scheme, but that it was nonetheless important to remember the need to meet the 3.5 per cent real rate of return over the very long term.

75. FAFICS thanked the consulting actuary for an excellent presentation, which was lucid, easy to follow and full of good news regarding the actuarial valuation. It noted that the strong financial position of the Fund was a great comfort to all retirees and beneficiaries and helped enhance their sense of security. On behalf of the entire membership, FAFICS expressed deep appreciation to all those responsible for this state of affairs, including all those responsible from the Office of Investment Management and the secretariat of the Fund.

76. In reply to a question regarding the cost of the two-track system and the potential impact on liabilities if, for example, half of the participants were to opt to go on the two-track system, the consulting actuary clarified that they had looked at the overall picture with and without the two-track feature. It was recalled that the two-track feature was a financial option for retirees and represented a cost for the Fund. The monitoring of the cost of the two-track system showed that it had trended on an historical basis from a load of 1.9 per cent to 2.1 per cent of pensionable remuneration, but the actuaries would be surprised if it deviated significantly from historical experience in the near term.

77. The Chair of the Assets and Liabilities Monitoring Committee remarked that, although the healthy financial position was positive, it should be recalled that any dip in investment performance could have a significant impact; however, as long as the Fund remained in the 2 per cent corridor, there was no cause for concern.

78. **The Board took note of the valuation results and welcomed the fact that the Fund remained near actuarial balance, with a small deficit as at 31 December 2017.**

B. Report of the Committee of Actuaries

79. The Pension Board considered the report of the Committee of Actuaries. The report contained the Committee's review and commentary regarding the actuarial valuation results as at 31 December 2017 as presented by the consulting actuary. The Committee's comments and conclusions on the valuation results are summarized in paragraphs 59 to 68 above.

80. The Rapporteur of the Committee noted that the Committee of Actuaries met from 11 to 13 June 2018 in Berlin. He reported to the Board that a representative of the Office of Investment Management had, for the first time, attended the Committee's meeting and presented information on investment performance and risk management. The presence of the representative of the Office of Investment Management was well received by the Committee, both as a way to ensure a deeper understanding of important issues and to reinforce collaboration between the actuaries and investment managers. In response to a question, the Representative of the Secretary-General confirmed that the Office of Investment Management would be invited to all meetings of the Committee of Actuaries going forward.

81. The Board was informed that the Committee had updated the Fund's solvency dashboard, as prepared for the Assets and Liabilities Monitoring Committee for the 31 December 2017 actuarial valuation results and updated by the Office of Investment Management.

82. The Board was further informed of the Committee's consideration of its request for an informal metric referred to as a normal retirement age "trigger". The intent was to measure longevity in order to trigger further analysis when there is an indication that longevity has increased at least one year from the time the normal retirement age was last increased to age 65. It was recalled that the Pension Board had approved, upon the recommendation of the Committee, the adoption of the new 2017 United Nations mortality tables and associated forecast mortality improvement scales at its sixty-fourth session, in 2017. Owing to the improvements in longevity for Fund participants reflected in those tables, the estimated life expectancy of retirees increased with the adoption of the tables. The Committee discussed various alternatives for calculating a trigger and noted some constraints related to the use of a trigger, including problems with understanding and communicating such an indicator given the technical complexities and social and human resources aspects of increasing the normal retirement age (and possible differences between the normal retirement age and the mandatory age of separation).

83. The Board was informed that the Committee had concluded that the trigger should not be used to automatically increase the normal retirement age or the mandatory age of separation, but should instead indicate the need for further analysis, including with respect to the generational issues associated with increased longevity. In addition, other aspects of increasing the normal retirement age needed to be more fully vetted, such as contribution rate stability, administration and communication of more frequent increases in the normal retirement age and human resources considerations. To that end, the Committee agreed to analyse the issue further and requested the consulting actuary and the secretariat of the Fund to work together to develop a more holistic approach for the Committee of Actuaries to consider at its next session, in 2019. The approach would include the suggested trigger methodology and take into account the fact that member organizations would need a number of years to consider the human resources effects before any change could be implemented.

84. The Board was reminded that the Assets and Liabilities Monitoring Committee had requested the Committee of Actuaries to consider potential changes in the procedures currently used to reflect future mortality improvements in the actuarial valuations. The Assets and Liabilities Monitoring Committee requested this analysis in response to the magnitude of the one-time estimated increase of the required contribution rate that had occurred when the mortality tables were updated in 2007 and 2017, with the thought being to avoid a significant increase every decade by gradually reflecting the increase in each actuarial valuation. The Rapporteur of the Committee of Actuaries reminded the Board that an assumption of future mortality improvements was already included in the actuarial valuations. He noted that the Committee, at its meeting, had developed some additional procedures for specifically monitoring trends in the Fund's longevity at the completion of each biennial actuarial valuation. The Committee had also observed that recent trends throughout the world indicated that the rate of longevity increases might not continue. The Board was informed that the Committee had requested the consulting actuary to develop alternative assumptions for its consideration in 2019 that would include the effects of an acceleration and/or deceleration in the rates of longevity improvement.

85. In conjunction with the adoption of the 2017 mortality tables, the Board was reminded that the commutation, transfer value and other factors used for the administration of the Fund also required updating. The Board was informed that the

Committee had reviewed and taken note of the methodology for calculating the Fund's factors along with the updated tables, as well as the estimated increase of 0.09 per cent in the required contribution rate resulting from these changes, effective 1 January 2019, which would be reflected in the 31 December 2019 actuarial valuation. The Committee recommended that, in the future, the consulting actuary include the financial effects of the changes in the actuarial factors with the presentation of the financial effects of any changes to the actuarial valuation assumptions. **The Pension Board agreed with this recommendation.**

86. The Rapporteur reminded the Board that each year the Committee completed an evaluation of the services provided to the Fund by the consulting actuary. The Committee confirmed its latest overall appraisal that the consulting actuary continued to apply high professional standards consistently. Furthermore, the Rapporteur, on being informed that the consulting actuary position was currently the subject of a competitive bidding process, expressed the opinion that, if there was no significant difference in the overall evaluations of the candidates, then consideration should be given to retaining the current consulting actuary.

87. The Board was informed that the Committee had considered the proposed new transfer agreement of the Fund with the African Development Bank. The Committee noted the fact that the agreement followed the provisions of the Fund's model agreement. Under the terms of the model agreement, cost neutrality is ensured for the Fund when any new transfer agreements come into force. If the model is followed, concurrence by the Committee will not be required in the future in regard to new transfer agreements.

88. The Board was informed that the Committee had also considered the draft membership agreement between the Fund and the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization. The Committee took note of the application for membership and observed that the Fund had no actuarial requirements for adding new organizations to its membership. The Committee further noted that the nature of a defined benefit plan was such that it was not necessary to have actuarial requirements when considering the addition of small groups into the Fund with respect to future service. However, because it was following the provisions of its standard transfer agreement, the Fund was in fact actuarially cost-neutral when recognizing and crediting past service.

89. It was noted that Klaus Heubeck and Carlos Lozano Nathal were retiring from the Committee at the end of 2018, after 12 years of service. **The Board thanked Mr. Heubeck and Mr. Lozano Nathal for their dedicated and excellent service to the Fund and wished them well in their retirement.**

90. It was pointed out to the Board that the World Health Organization request related to article 24 (restoration of prior contributory service) of the Fund's Regulations had been discussed by the Committee. The Committee commented on the complexity of the provisions related to restoration and continued participation in the Fund, and took note of the extensive legislative history in this respect. The Committee believed that the analysis completed by the consulting actuary on this matter was limited owing to the existence of only limited records regarding the incidence of rehiring and recommencement of participation, which was a key element in estimating costs. However, it supported the methodology employed by the consulting actuary to determine the cost estimate. The Committee noted that the change in provisions was expected to minimally increase costs and suggested that if there was a willingness to proceed with such changes, additional design considerations should be studied in the future regarding potential simplification and coordination.

91. **The Board thanked the Rapporteur and the Committee of Actuaries for their service to the Fund and took note of the Committee's report.**

C. Membership of the Committee of Actuaries

92. In accordance with article 9 of the Fund's Regulations, "a committee consisting of five independent actuaries shall be appointed by the Secretary-General upon the recommendation of the Board". The Board was informed that the three-year terms of two regular members of the Committee of Actuaries, Denis Latulippe (Canada, representing Western European and Other States) and Bernard K.Y.S. Yen (Mauritius, representing African States), would expire at the end of 2018. Both members had indicated that they would be prepared to continue to serve on the Committee should the Board decide to recommend their reappointment.

93. The Board was also informed that two ad hoc Committee members, Klaus Heubeck (Germany, representing Western European and Other States) and Carlos Lozano Nathal (Mexico, representing Latin American and Caribbean States) would retire at the end of 2018.

94. The participants group noted that it appreciated the expertise of and care taken by the members of the Committee of Actuaries, as well as the extent and complexity of their work. The group stated that it wished to ensure that the Committee of Actuaries was appropriately composed to handle its tasks and that it could include ad hoc members. Noting the opinion of the secretariat of the Fund that there was no legal contradiction between article 9 of the Regulations and section E of the Rules of Procedure, and that it had indeed been a long-standing practice to use ad hoc members, the participants group indicated that it did see an incongruity between article 9 of the Regulations, which states that five members should be appointed and does not mention ad hoc members, and the Rules of Procedure, which do. The group also indicated that there might be a similar situation with respect to article 20, concerning the Investments Committee. The participants group proposed that, in the interest of transparency, this perceived incongruity be resolved before the next session of the Board. To that end, the participants group proposed that the report of the Board to the General Assembly contain either proposed amendments to articles 9 and 20 of the Regulations or new articles, perhaps based on text from section E of the rules of procedure, to explicitly allow up to two ad hoc members each in the Committee of Actuaries and the Investments Committee. It was clarified that the issue of the appointment of ad hoc members to the Committee of Actuaries had arisen in 2004, when the necessity for ad hoc members had been highlighted. The Standing Committee had considered the issue of ad hoc members in 2005 and unanimously approved the provision. As a result, the rules of procedure were amended to include a new rule E.1, which reads:

> Ad hoc members may be appointed to serve on the Committee of Actuaries and the Investments Committee, in addition to the regular members of those Committees appointed pursuant to articles 9 and 20 of the Regulations of the Fund, respectively. Such ad hoc members shall be appointed in the same manner as the regular members of the Committee concerned; however, the terms of office of the ad hoc members may differ from those of the regular members.

The amendment was reported to the General Assembly in 2006 (see A/61/9, paras. 169–172), which took note of it in its resolution 61/240. It was suggested that the matter be referred to the Committee of Actuaries for consultation.

95. The Representative of the Secretary-General noted that, unlike other committees of the Board, the Investments Committee had been established by the General Assembly to advise the Secretary-General, and he believed that more consultation on a possible change to article 20 would be needed.

96. **The Board expressed its appreciation to the members of the Committee of Actuaries and decided to recommend to the Secretary-General that, in accordance with article 9 (a) of the Regulations of the Fund, Mr. Latulippe and Mr. Yen be reappointed for a term of three years beginning 1 January 2019.**

97. **The Board decided to appoint a new ad hoc member, Roland Schmid (Switzerland, representing Western European and Other States) for a two-year term beginning on 1 January 2019. The Board decided to defer the consideration of a possible alignment of articles 9 and 20 of the Regulations and section E of the rules of procedure to its next session, in 2019.**

98. The representatives of the United Nations participants did not agree with the decision to appoint ad hoc members of the Committee of Actuaries. They noted that the Regulations of the Fund, as approved by the General Assembly, did not provide for ad hoc members. They proposed that the Regulations be changed to allow for ad hoc members. The proposal, however, was not acted upon.

D. Contract for services of the consulting actuary for the period from 2019 to 2026

99. Article 10 of the Fund's Regulations states that a "consulting actuary to the Board shall be appointed by the Secretary-General upon the recommendation of the Board for the purpose of providing actuarial services to the Fund". The Board was informed that the current contract for the Fund's consulting actuary would be expiring at the end of 2018. The Board was informed about the formal bidding exercise, including evaluation criteria and interview questions, for the future contractual arrangements, as completed by the secretariat of the Fund jointly with the Procurement Division. The Board was further informed that the Headquarters Committee on Contracts had considered the case and rejected it.

100. Some members of the Board proposed that the current contract be extended for two years, in order to complete the valuation cycle of the Fund, the experience review and the establishment of actuarial assumptions, as well as the actuarial valuation itself. Other members considered that a one-year contract extension was appropriate. After discussion, **the Board agreed that the current contract should be extended for one year, pending the completion of a new procurement process and drawing on lessons learned from the ongoing exercise**. It was noted that, if it were to prove necessary, the Board could revisit the question of further extension at its next session.

Chapter VII

Investments of the Fund

A. Management of the investments of the Fund: sustainable investing practices

101. The Representative of the Secretary-General for the investment of the assets of the Fund introduced the members of the Investments Committee who were present for the joint meeting of the Board with the Committee.

102. The Representative of the Secretary-General then introduced the report on the management of the Fund's investments and noted that the key criteria of safety, profitability, liquidity and convertibility mandated by the General Assembly were followed in making every investment decision.

103. The Representative of the Secretary-General stated that the Fund had met or exceeded its long-term investment goal of a 3.5 per cent real rate of return. He noted that the 3.5 per cent real rate of return had been the Fund's most important long-term investment objective, as that was the rate of return needed over the long term to ensure the Fund's fully funded status, as determined by successive actuarial and asset-liability management studies. The Fund had exceeded the 3.5 per cent real rate of return objective in 15 out of the past 23 calendar years. The Representative of the Secretary-General noted that, on average, the Fund had exceeded the 3.5 per cent real rate of return objective for the past 5-, 15-, 20-, 25- and 50-year periods ending 31 December 2017. The only exception was the last 10-year period, owing to the 2008 global financial crisis.

104. The portfolio had underperformed with respect to the policy benchmark over the past three years, but had broadly met the policy benchmark over longer periods (especially given the fact that the policy benchmark did not currently reflect the impact of not investing in tobacco or armaments companies).

105. The Fund has one of the most globally diversified investment portfolios in the world, across asset classes, geographic regions and currencies. As at 31 December 2017, the Fund had investments in 100 countries (Member States of the United Nations) and six regions (geographical entities that are not Member States of the United Nations). The global equity benchmark, the Morgan Stanley Capital International All Countries Weighted Index, includes 24 countries/markets in emerging markets and 23 countries in frontier markets. The Fund also has indirect country exposure through its investment in regional emerging and frontier markets equity, fixed income, real assets and alternative investment funds.

106. As at 31 December 2017, the Fund was valued at $64.1 billion, an increase of $9.7 billion from $54.4 billion as at 31 December 2016. The strong global equity markets during 2017 and a disciplined approach of adhering closely to the Fund's strategic asset allocation targets and ranges contributed to this performance. The Fund applies a disciplined rebalancing process, which is monitored and managed regularly. The Office of Investment Management managed its active risk-taking prudently, taking into account both the overall risk of its investment portfolio vis-à-vis the liabilities and the comparative advantages and skills of its investment teams.

107. For the calendar year 2017, the Fund achieved a nominal return of 18.6 per cent, outperforming the policy benchmark of 18.1 per cent by 0.5 per cent, and a real return of 16.2 per cent, which is 12.7 per cent above the long-term real rate of return objective of 3.5 per cent in United States dollar terms. The relative outperformance of 0.5 per cent for 2017 was primarily the result of asset allocation decisions, which overweighted public equity and underweighted long-term fixed income. The Fund

maintained a slight overweight in public equity throughout the year, in combination with a disciplined rebalancing process. The Fund also maintained an underweight position in long-term fixed income throughout the year and an overweight position in cash and short-term fixed income. Both public equity and long-term fixed-income portfolios outperformed their respective benchmarks for the year ended 31 December 2017.

108. The Office of Investment Management strengthened its approach to sustainable investing and began integrating environmental, social and governance metrics holistically in all asset classes. The Fund is also an active participant in, among other things, the Asset Owners Disclosure Project, Ceres and the Climate Action 100+ initiative. As an acknowledgement of the Fund's continuing "best-in-class" efforts for sustainable investment, the Fund has been awarded an A+ rating by Principles for Responsible Investment. It also received an AAA ranking of number 17 out of 500 asset owners globally in the Asset Owners Disclosure Project and featured in its 2018 Climate Leadership Report. In addition, the Fund has been recognized as one of the top 25 most responsible asset allocators in the Bretton Woods II Leaders List.

109. The Representative of the Secretary-General updated the Board on the independent review of the investment operations of the Office of Investment Management, noting that most of the gaps that were highlighted in the study had been successfully addressed or were currently in the process of being addressed.

110. He then provided a summary of key achievements by the Office of Investment Management during 2017. The Office had recruited 15 new staff members and filled all management positions, piloted enhanced investment processes in the global emerging markets portfolio, implemented new risk limits for the fixed-income portfolio, implemented enhanced risk and performance reporting, completed an ICT target operating model study, and completed the request for proposals process to select a new custodian and moved to one custodian/master record-keeper.

111. The Representative of the Secretary-General stated that the key goals for 2018 were to ensure that investment returns during 2018 met or exceeded the policy benchmark, ensure that the 15-year real return (i.e., net of inflation) continued to exceed the long-term objective of 3.5 per cent in United States dollar terms, further strengthen the approach to sustainable investing, rebuild trust and credibility by communicating proactively with all of the Fund's stakeholders (internal and external) and remain in compliance with regulations and rules.

112. He said that he would continue to work on the implementation of the recommendations of OIOS and the Board of Auditors, ensure good stewardship of financial and human resources, further strengthen and institutionalize the investment, risk management and operational processes of the Office of Investment Management, implement the target operating model plans and ensure that the Office works as one team.

113. As requested by some Board members, the Representative of the Secretary-General provided an update on asset allocation as at 30 June 2018 and performance returns as at 25 July 2018. He stated that the Fund's asset allocation as at 30 June 2018 indicated that risky assets and fixed income were slightly underweight, while cash was overweight. The Representative of the Secretary-General noted that tactical asset allocation decisions had been made when the market presented the Fund with opportunities. He informed the Board that a process had been institutionalized within the investments group through the establishment of an internal investments committee, which debated all tactical asset allocation decisions, and a private markets committee, which reviewed all private equity and real assets investment decisions. Finally, the Office of Investment Management had exceeded the long-term real return objective for 1, 3, 5, 10, 15, 25 and 50 years as at 30 June 2018.

114. The Representative of the Secretary-General noted that, as at 25 July 2018, the value of the Fund's assets was $65.4 billion and the year-to-date Fund performance was 2.3 per cent. He explained that year-to-date performance returns had not been very good because markets had been very volatile, primarily owing to the strength of the United States economy and resulting increases in United States interest rates. The Representative of the Secretary-General alerted the Board that markets could be expected to remain volatile, with a serious possibility of a significant downturn or average returns of plus or minus a few percentage points in the foreseeable future. He stated that he would not be surprised if such a downturn occurred but would not be concerned about it and would not want the Board to be concerned either. He observed that there was a fundamental change in the markets owing to the reversal by the United States Federal Reserve of its policy of quantitative easing. The United States Federal Reserve was now raising interest rates, and the United States economy was doing very well, partly because it had been fuelled by a big tax break implemented by the current administration. The Representative of the Secretary-General pointed out that such an environment could make it difficult to interpret economic indicators because one did not know the true basis for the strength of the economy.

115. The Representative of the Secretary-General completed his update by stating that, although year-to-date performance had not been exceptional, the Fund had outperformed the policy benchmark as at 30 June 2018 by 43 basis points, or 0.43 per cent. All 2018 numbers were, of course, based on preliminary unaudited data and were subject to change. He noted that the performance of the Fund relative to the policy benchmark had been a cause of concern for the Board in the past, and in this regard he was pleased to report on the implementation of various measures to create a much more disciplined risk-taking process in consultation with the investment teams.

Discussion in the Board

116. A representative of the governing bodies expressed his appreciation for the report of the Representative of the Secretary-General. He noted that the Fund performed exceptionally well in 2017, contributing to the long-term health and objectives of the Fund and thanked the Office of Investment Management for its good work. He also expressed his appreciation to the Representative of the Secretary-General for the open and communicative approach he had taken since assuming his mandate, including visiting and meeting with the representatives of staff pension committees of various member organizations of the Fund. He stated that he believed that those efforts contributed to reinforcing a positive message for internal and external stakeholders and building trust and confidence. He also noted that such efforts were especially relevant in countering misperceptions that affected the credibility and image of the Fund and the Board. He conveyed the governing bodies' support for the Representative of the Secretary-General's commitment to constructive dialogue.

117. The representative of the governing bodies then referred to the expected downturn and risks referred to by the Representative of the Secretary-General and asked the him if he believed that the percentages of the different asset classes of the Fund needed to be changed significantly to address the risks and volatility, considering that the Fund remained overweight in global equities.

118. In response to the question, the Representative of the Secretary-General stated that he had been fairly clear on many occasions that he believed that the Fund was too heavily exposed to public equity markets, but that that type of change needed to be made through a very disciplined, methodical and thoughtful process and after consultation with all stakeholders. The Representative of the Secretary-General indicated that he intended to pose all relevant questions to the third-party service provider that would be hired to conduct the upcoming asset-liability management

study, to work with that firm to come up with a considered response that took into account all material factors and then to discuss and consider the results of the asset-liability management study with the Board and various committees to ensure that good decisions were made. The Representative of the Secretary-General noted that the Fund's asset allocation would be considered somewhat behind the times, relative to the average strategic asset allocation of its peer group of global pension funds. The Representative of the Secretary-General informed the Board that it would hear more about strategic asset allocation during the course of the next 12 months.

119. The representative of the governing bodies then referred to the issue of sustainable investing and stated that since the Fund was the pension fund of the United Nation and other agencies that work throughout the world to fulfil the Sustainable Development Goals, the governing bodies believed it was incumbent on the Fund to adhere to values and practices that were consistent with the 2030 Agenda for Sustainable Development. He then stated that sustainable investing was a very important initiative and that the publishing of an annual report on the matter was a very welcome initiative. He suggested that the contents of the report be linked to specific Sustainable Development Goals and that relevant targets could be indicated.

120. In response to the question, the Representative of the Secretary-General thanked the member for his encouraging words and stated that the recommendations he conveyed would be taken under advisement. The Representative of the Secretary-General noted that he did not want to promise too much, considering that this would be the first sustainable investing report prepared by the Fund, and mentioned the current resource constraints in the Office of Investment Management. However, stressed that, within those resource constraints, the Office of Investment Management would initiate the preparation of an annual report on sustainable investing and attempt to improve the report incrementally every year.

121. The representative of the governing bodies then requested clarification regarding a statement included in the report of the Representative of the Secretary-General on sustainable investing practices to the effect that by deploying an active shareholder voting and engagement policy the Fund could more effectively assist in the achievement of positive sustainable impact and change. More specifically, he enquired if it was envisioned that the Fund would actively support activities of non-governmental organizations and how it would propose to do so.

122. In response to the question, the Representative of the Secretary-General noted that the Office of Investment Management currently had a proxy voting policy in place. He also noted that, in terms of engagement, the Office of Investment Management was contemplating collaboration with other long-term investment institutions. He then asked the Director of the Office of Investment Management to further elaborate on this topic.

123. The Director of the Office of Investment Management stated that the Fund believed in encouragement through engagement and was consequently actively involved with various organizations, such as Principles for Responsible Investment, which acted as platforms for collective engagement. Through Principles for Responsible Investment, the Fund collaborated with different types of pension fund investors in engaging with various companies on specific issues. He observed that the Fund also collaborated with other institutions in the context of the Climate Action 100+ initiative, which was coordinated by five institutions, including Ceres, a North American non-governmental organization, with the same objective. The Director noted that because engagement was a very resource intensive activity, in particular in the context of the Fund's global investments, and taking into consideration the current resource constraints of the Office of Investment Management, the Fund was

considering alternative avenues for collaborating with other organizations to increase its engagement activities.

124. A representative of the participants group thanked the Representative of the Secretary-General for the very comprehensive information he had provided. He asked a question about the diversity profile of the staff of the Office of Investment Management and external asset managers. He referred to a recent study by the California Public Employees' Retirement System, which had concluded that those pension plans that implemented diversity in their roster of external asset managers performed 35 per cent better than those that based their selection decisions solely on market performance. He asked whether the Office of Investment Management took diversity into consideration in its recruitment process or in the selection of external managers. He also asked how the Fund's policy benchmark compared with the industry benchmark.

125. The Representative of the Secretary-General thanked the representative for his comments on diversity and stated that he fully subscribed to that observation. He stated that there were a number of studies that showed that a diverse workforce led to much better decisions, thinking, discussion and insights. He stated that he was committed to diversity and referred to his compact with the Secretary-General, which included a commitment to increase diversity among the Office of Investment Management staff, in terms of both gender and geographical representation.

126. With regard to the representative's comment pertaining to the diversity profile of external asset managers, the Representative of the Secretary-General noted that approximately 85 per cent of the Fund's assets were managed internally and that consequently a much more significant impact could be achieved through the recruitment process. He stated that when he came on board on 1 January 2018, he was informed that his budget for 2018 and 2019 had been approved in 2017 without a single additional post being requested. He stated that, as a consequence, his hands were tied from a recruitment perspective until 31 December 2019, but that he would nevertheless endeavour to enhance the diversity profile of the staff of the Office within those constraints.

127. With respect to the representative's question concerning benchmarks, the Representative of the Secretary-General stated that it was not advisable to attempt to compare the Fund's policy benchmark with benchmarks of other pension funds. He suggested that it was more meaningful to compare the Fund's policy benchmark against its liabilities because the purpose of the Fund was to meet those liabilities. He stated that an improvement in the Fund's funding ratio indicated that the strategic allocation and policy benchmark were working. He cautioned against comparing the Fund with other pension funds because the circumstances of other pension funds and the restrictions on them might be quite different from those of the Fund. He stated that the Office of Investment Management was nevertheless continuously considering every possible comparator on various metrics such as costs, strategic asset allocation and the percentage of assets managed internally and externally. He then highlighted the fact that he was a strong believer in internal management. He indicated that the internal management skills of the Office had been acquired over a very long period of time, that he considered those skills very important and that it was his intention to nurture and further strengthen them.

128. A representative of the governing bodies welcomed the report of the Representative of the Secretary-General and the very positive results it highlighted and referred specifically to the statement in the report that emphasis would continue to be placed, to the extent possible, on the regions of sub-Saharan Africa and the Middle East, as they provided diversification benefits through uncorrelated returns to the emerging markets portfolio. He noted that that statement had appeared repeatedly

in almost every report prepared by previous Representatives of the Secretary-General in the past but that, in his view, not much had been done by way of delivery. He noted the existence of investment opportunities in developing countries, including in his own country of Kenya, where the easing of political tensions had led to increased confidence by investors and where the Government had issued eurobonds to finance infrastructure development. He pointed out that opportunities of this type also existed all over Africa and the developing world. He invited the Representative of the Secretary-General to take this promise seriously and to explore those opportunities so that the Fund's geographical diversity requirement would be met.

129. In response to the representative's observation regarding investment in emerging markets, the Representative of the Secretary-General stated that the Office of Investment Management was constantly trying to increase the proportion of the Fund's investments in emerging markets and would continue to do so. The Representative of the Secretary-General confirmed his commitment to considering the issue of geographical diversity very closely in order to identify where investment opportunities were and to take advantage of every opportunity that was available.

130. A representative of the participants group welcomed the Representative of the Secretary-General and thanked him, his team and the Investments Committee for their work. He characterized the fact that the Fund's performance was above the policy benchmark as a positive development. He welcomed the Representative of the Secretary-General's openness in terms of communication and the manner in which he shared information and thanked him for meeting with various Board members in New York. He also pointed out that the comments of the Representative of the Secretary-General pertaining to sustainable investing had generated considerable interest from the constituents of the participants group, as there was heightened concern on their part relating to where their money was being invested and whether those investments would lead to any untoward consequences. The representative stated that the proposed sustainable investing report was very welcome and suggested that, in addition to linking the report to the Sustainable Development Goals, it would be helpful to explain the Fund's overall sustainable investing approach and philosophy and how it approached and engaged with particular industry sectors now and in the future.

131. The Representative of the Secretary-General thanked the representative of the participants group for his kind words. With respect to the sustainable investing report, the Representative of the Secretary-General stated that all of the representative's suggestions would be taken on board. He also stated that the report would serve to demonstrate that the Fund was currently a leader in this space and noted that it was his intention to further enhance the Fund's leadership position in sustainable investing.

132. A representative of the executive heads thanked the Representative of the Secretary-General for his very interesting and comprehensive report. She also thanked the members of the Representative of the Secretary-General's team and the members of the Investment Committee. She stated that the work accomplished by the Office of Investment Management was of great importance to the executive heads and that she took note in particular of the comments by the Representative of the Secretary-General on the volatility of the markets. She noted that, in that context, she was particularly pleased with the progress that had been made in the areas of risk management and compliance, which were extremely important. She referred to comments made by other Board members about the Representative of the Secretary-General's communication efforts and noted that the fact that the he had reached out to all constituencies was appreciated. She stated that she believed that that was extremely important for the credibility of the Fund. She stated that it was very encouraging that the Fund was a recognized leader in environmental, social and governance investing, which was very much in line with the values of the United

Nations. She referred to the opening statement by the Representative of the Secretary-General on the first day of the Board's session, in which he stressed the importance of acting as one team in supporting the Fund, and indicated that the executive heads very much appreciated and supported that approach. She also noted the statement by the Representative of the Secretary-General to the effect that his major objective was to put the Fund on a robust, stable footing for the next 50 years and to work to protect the interests of the beneficiaries. She also noted that the commitment of the Representative of the Secretary-General to geographic and gender diversity in his staffing was very important, but noted that the one team approach particularly resonated with the executive heads. The member concluded her remarks by stating that the executive heads were committed to working closely with the Representative of the Secretary-General and his team to achieve those objectives.

133. A representative of the governing bodies congratulated the Representative of the Secretary-General on his appointment. The representative stated that he valued the Representative of the Secretary-General's interest in working as one team and communicating and being transparent on the range of issues that the Board dealt with. He also welcomed and thanked the members of the Investments Committee and stated that they were an extremely valuable part of the Pension Fund and that the governing bodies were delighted that they were able to attend this Board meeting in Rome.

134. The representative commented on the returns of the World Bank pension fund for a prior year, as reported in its annual report, and noted that those returns were better than those of the Fund for the same year. The member also noted that the World Bank pension fund's significantly higher asset allocation to alternative investments was clearly one of the reasons for such better returns. The representative then asked the Representative of the Secretary-General and the members of the Investments Committee to elaborate on this issue. He also stated that the Fund appeared to be within its asset allocation range for alternative investments, but that the Representative of the Secretary-General had stated that he would wait for the results of the asset-liability management study to determine any changes to the allocation. The representative also referred to the statements by the Representative of the Secretary-General regarding the need to build up the internal capacity of the Office of Investment Management in this area.

135. The Representative of the Secretary-General responded to this question by stating that he agreed with the member that the Fund was not as highly invested in alternative investments as some other pension funds. He also noted that there were certain stakeholders who had communicated to him that they did not like any risky investments and would ideally like the assets of the Fund to be managed in a riskless fashion. The Representative of the Secretary-General referred to the fact that risk can be defined in different ways. He noted that riskless investments can be made, but that such investments would result in a much greater risk that pension contributions would need to increase in the future.

136. The Representative of the Secretary-General then proceeded to explain that changes to the strategic asset allocation were based on a full analysis of investment opportunities, and the results of the asset-liability management study would be required for that purpose. He also stated that at this moment the Fund's allocation to alternative investments was not a constraint, but that the Fund's ability to invest in alternative investments adequately was a constraint. He referred to the fact that the asset allocation to real assets was 9 per cent, but that the real assets portfolio currently represented approximately 6.5 per cent of the Fund's investments. The Representative of the Secretary-General highlighted the fact that the Fund had 2.5 per cent of unallocated capacity in the real assets portfolio which was available for investment without the requirement for any additional prior approvals. He mentioned that the same situation was true for the private equity portfolio, which had a 5 per cent

allocation, but which currently represented approximately 3.7 per cent of the Fund's investments. The Representative of the Secretary-General explained that the first challenge for the Fund was to fully use those allocations. He also explained that the asset-liability management study was the right vehicle to evaluate the pros and cons of increasing the allocation to alternative investments and real assets. He said that he would consider increasing those allocations on the basis of appropriate justification and would consult with all of the Fund's stakeholders as part of that process.

137. The Representative of the Secretary-General addressed the issue of capacity-building raised by the member and stated that it was difficult to build such capacity rapidly, particularly given the fact that the Fund was resource constrained. He stated that he intended to request significant additional resources in the budget that would be presented to the Board next year, in order to build the capacity to keep the Fund safe, stable and robust for the next 50 years. The Representative of the Secretary-General stated that he believed that additional resources were essential to strengthen the investments organization that produced the returns that were going to be more and more important for the well-being of the Fund going forward. The Representative of the Secretary-General noted that he had already taken a number of steps in that respect, such as having the real assets team report directly to the Director, which had been done with everyone's full understanding and acceptance in an effort to redistribute responsibilities and ensure that there was adequate bandwidth to focus on an area that he considered very important. He also stated that the real assets portfolio would be looked at in terms of considering various new types of investments and conduits, such as special situations and opportunistic investments, as well as co-investments and collaboration with other institutional investors, which could help diversify the Fund's real assets portfolio. The Representative of the Secretary-General referred to the fact that he had already set up a private markets committee, with the objective of making the private markets investment decision-making process more robust by ensuring that a wide range of viewpoints were taken into consideration. He referred to his efforts to find creative ways to enhance the Fund's resources within the current resource constraints by, for example, advertising certain temporary positions, initiating the internship program and exploring possibilities for greater productivity through internal restructuring of the organization.

138. The Chair of the Investments Committee thanked the Board for welcoming the Investments Committee to Rome. He stated that the response provided by the Representative of the Secretary-General to this question was very comprehensive and noted that the issue had been raised by the Investments Committee and staff of the Office of Investment Management in the context of the Investments Committee meetings. He stated that he believed that there was little debate that the Fund had been a little behind the curve in having the wherewithal, bandwidth and resources to get to appropriate levels of exposure to alternative investments and real assets. He noted that he concurred with the Representative of the Secretary-General that the Fund should not just aim to fill an allocation because of an overarching reason to get to a specified target, but should continue to make investments in a disciplined and methodical manner using a robust investment process. He stated that what was undisputable was that the Fund was a big, complex, global fund which should have the wherewithal, options and resources to invest in a broad range of asset classes that were on par with the best run large pension funds. He stated that he was encouraged that progress was being made in that respect and noted that in the past six or seven months all the changes that had been made, in terms of both soft actions, such as communication and collaboration, and hard actions, such as improvements in the investment process, risk management and operational processes, were encouraging. The Investments Committee had observed the improvements during its discussions with staff of the Office of Investment Management.

139. A representative of FAFICS referred to prior statements by the Representative of the Secretary-General with regard to foreign exchange and a new approach that could be expected in the future in response to the findings of the Board of Auditors regarding foreign exchange losses. The representative stated that he believed that the new approach needed to be well understood and assumed that the Board of Auditors had been consulted and that a full understanding of the issues had been gained, so that the proposed changes would yield the intended benefit and that there would be no problems on that front in the future.

140. The Representative of the Secretary-General responded to the question by stating that the Office of Investment Management had consulted extensively with the Board of Auditors and confirmed that the Board was comfortable with the proposed plans for changes and noted that the Board had informed the Office of Investment Management that it would review those plans once implemented before the relevant audit recommendations were closed. With respect to the issue of foreign exchange losses, the Representative of the Secretary-General stated that the Board of Auditors might, at one point, have referred to the concept of foreign exchange losses, but that it had subsequently very clearly communicated to the Office of Investment Management that it understood that no foreign exchange losses were being referred to. He explained that the issue that the Board was concerned about was currency exposure, rather than foreign exchange losses. He further explained that what the Board wanted to understand from the Office of Investment Management was whether those currency exposures had been consciously or unconsciously made. The Representative of the Secretary-General stated that he appreciated the Board's concerns in that regard, although the discussion on this issue had led to a certain amount of miscommunication and some misperceptions, as there had been no losses per se. He specified that all of the Fund's gains or losses were included in the headline return number, which had met or exceeded the long-term real return objective for different periods of time, including the 1-, 3-, 5-, 10-, 15-, 25- and 50-year periods ending 30 June 2018. He reiterated that the relevant issue was not currency losses per se, but rather currency exposure and whether the Fund was being compensated for currency exposure with additional expected returns. He added that the Office of Investment Management would address any uncompensated risks that were identified.

141. The FAFICS representative referred to a statement by the Representative of the Secretary-General to the effect that the benchmark for fixed income would be a 100 per cent United States dollar benchmark. The representative asked if the Fund would be expected to divest the fixed-income portfolio for non-dollar assets if this were the case.

142. The Representative of the Secretary-General responded to this question by stating that no decision had not yet been made with respect to the selection of a global fixed-income benchmark — whether it would be a 100 per cent United States dollar benchmark or have a much more significant dollar component than the current benchmark. He stated that, at this time, the focus of the Office of Investment Management was mainly on changing the cash benchmark, which was the first order of business. He noted that the decision to change the cash benchmark had been made and was in the process of being implemented, with a target date of 1 October 2018. He stated that the issue of the global fixed-income benchmark would be looked at once the cash benchmark implementation had been completed. He noted that, whichever option was selected, the decision would be based on merits in terms of what is best for the Fund as a whole, and that there would be an implementation plan which would take into account all the changes that needed to be made as a result of the decision. The Representative of the Secretary-General specified that this was an issue that had already been considered by his team and that, consequently, the Office of Investment Management already had a general idea of how to proceed. He noted

that he did not want to take on too many projects at one time, but was quite confident that once the decision was made there would be a very good implementation plan. The Representative of the Secretary-General also added that any implementation plan should ensure that there were no unintended impacts related to human resources and that all skills sets available in house would be fully utilized.

143. The FAFICS representative referred to one recommendation of the independent review concerning the measurement and tracking of foreign exchange fluctuations with regard to liabilities and assets of the Fund, and asked how and where such measurements would be made — in the secretariat of the Fund or in the Office of Investment Management. The Representative of the Secretary-General responded to the question by stating that an asset liability monitoring tool had been acquired by the Office of Investment Management, that it would be used within the Office of Investment Management and that the results would be shared with the relevant committees of the Board.

144. The FAFICS representative referred to the perception that the portfolio was heavily exposed to public equities, leading to higher risk levels. He asked why the Fund was proposing to wait one year for the results of the asset-liability management study before addressing this issue, rather than finding a way to move faster towards the objective of reducing the excess risk.

145. The Representative of the Secretary-General responded to the question by explaining that the investment team of the Office of Investment Management was duty-bound to ensure that every risk that was taken could be explained and justified. He also referred to the fact that the Fund had a long-term focus and that the Fund needed to meet its investment objectives, both long-term and short-term. The Representative of the Secretary-General reiterated that the Fund did not deviate from its policy benchmark lightly. He noted that developments in the equity markets were actively discussed on an ongoing basis within the Office of Investment Management, with the Investments Committee, and with various market counterparts, but that such movements were not easy to predict. He stated that he wanted to reduce the Fund's exposure to public markets very carefully, without taking on undue risk as a result. He mentioned that the Office of Investment Management was investigating possible ways to create downside protection on the Fund's overall investment portfolio, but that such solutions were quite expensive. There was also a contrary view that such solutions might not be cost-effective for a large fund with a very long-term investment horizon.

146. The Chair of the Investments Committee added perspective to this question by stating that this was his fourteenth meeting with the Board and referring to the fact that when he first became a member of the Investments Committee, the value of the Fund's assets was approximately $20 billion. He noted that, since then, there have been two wars in which the United States has been engaged, the price of a barrel of oil went from $30 to $140, down to $30 and back up to $100, the western banking system was almost entirely destroyed by a financial crisis, an era of open globalization had perhaps evolved into a period of intense trade wars and the rise of terrorism had become an almost every day global phenomenon. He noted that, during this period, the equity markets had hit all-time highs and that the value of the Fund's assets was now $65 billion. The Chair explained that the reason for providing this overview was to demonstrate that the long term was very difficult and complex to predict. He stated that, consequently, an investor such as the Fund should not change its long-term objectives because of fluctuations in short-term winds. The Chair noted that a second very important point that needed to be considered was that during the last 10 years, for the first time in a period of approximately 100 years, long-term bonds were yielding less than the Fund's long-term return objective. This situation could continue into the foreseeable future. The Chair stressed that this issue went to

the heart of what risk really was for the Fund. He expressed the view that what truly constituted risk for the Fund was not an extensive list of short-term issues, but rather the fact that the Fund might have an underfunded status over time. The Chair reiterated this view by asking whether the Fund was being run in a manner in which the current asset allocation had the best probability of achieving a 3.5 per cent real United States dollar return (net of United States inflation) over the long term. The Chair concluded his remarks by making an analogy between the Fund and a ship on the ocean. He stated that a long-term investor such as the Fund could not opt out of being on the ocean. All that could be done is to ensure that the ship is as strong as possible, the sails are intact and the sailors on board were as talented, strong and tenacious as possible and did the best job possible on that ocean. He stated that one could take short-term actions, but those would not prevent a storm. Every time a storm came, the Fund might be dented and perhaps damaged but would not sink. The Chair underlined that that was the message of the past 15 years. The Chair suggested that long-term judicious risk should be embraced, as that was the Fund's single best chance to meet its liabilities. He reiterated that the real risk for the Fund was not meeting its 3.5 per cent real return objective over time and that short-term safety came at long-term peril. The Chair stated that, in his view, it was inevitable that over the next five to eight years there would be some trying periods, in which the fundamental nature of the long-term investment perspective would be questioned. A belief in the long term would be paramount when those events happened.

147. A representative of the participants group asked the members of the Investments Committee to share what they had learned during the Committee's February 2018 meetings in Silicon Valley that could be of use for the Fund.

148. The Chair of the Investments Committee responded to this question by stating that Silicon Valley had been selected as the location of the February meetings of the Committee because of the perception that Silicon Valley was changing the world more than any other region. He noted that those meetings had been very fruitful in that they allowed the Committee to observe the various powerful creative forces that were present in that region of the United States. The Chair mentioned, as an example, that Amazon had hired more staff than had been lost by the entire United States retailing industry. This example countered assumptions, which were not supported by the history of technology, that technology destroyed jobs. The Chair stated that, in his view, technology might disrupt labour markets, but it did not reduce them.

149. Another member of the Investments Committee commented that the strong performance of technology stocks was one of the reasons for the good performance of the Fund in 2017. She also noted that a number of observers of the technology sector believed that that growth was based on a temporary fad and not real change. She added that the meetings of the Investments Committee in Silicon Valley had allowed the members of the Committee to confirm that true innovation and real change, such as artificial intelligence and new methods of payments, was occurring. She also observed that the investment team of the Office of Investment Management had understood this prior to the Silicon Valley meetings and had taken advantage of the meetings to confirm the validity of these developments.

150. **The Board thanked the Representative of the Secretary-General. The Board welcomed the communication and results obtained to date.**

B. Membership of the Investments Committee

151. The Board was informed that the terms of the following ad hoc members of the Investments Committee would expire on 31 December 2018: Kemi Adeosun (Nigeria) and Keiko Honda (Japan). The Board noted the intention of the Secretary-General to

convert the ad hoc appointments to regular appointments for a three-year term, beginning 1 January 2019.

Discussion in the Board

152. The executive heads supported the recommendation and were particularly pleased with the diversity on the Committee.

153. The governing bodies and the participants group also supported the proposal.

154. **The Board concurs with the Secretary-General's decision to nominate the above-noted candidates to the Investments Committee, subject to approval by the General Assembly.**

C. Status of implementation of the information and communications technology strategy of the Office of Investment Management

155. The Chief Operating Officer for the Office of Investment Management presented an update on the ICT strategy and target operating model of the Office of Investment Management in response to a request that was made at the sixty-fourth session of the Pension Board.

156. The Chief Operating Officer outlined the goals of the target operating model, emphasizing the need to align the ICT strategy and the business objectives of Office of Investment Management in order to support the expected growth and increased complexity of the Fund over the next 5 to 10 years.

157. A study was conducted in 2017 by a reputable investments technology consulting firm to assess the technology environment of the Office of Investment Management and to assist in the development of a target operating model that would meet its evolving needs. The consultant interviewed 35 staff members of the Office, with the goal of identifying gaps and opportunities in the existing ICT infrastructure in order to develop a series of recommendations that would result in the alignment of the ICT infrastructure and applications to the needs of the business. This work resulted in an update of the ICT strategy, the objective of which was to strengthen the infrastructure and applications environment as the Fund continued to grow in terms of both size and complexity.

158. The study identified several key themes: (a) the Office of Investment Management had significantly simplified and improved its operating environment with the implementation of the Bloomberg Asset and Investment Manager platform; (b) given the significant changes to the application architecture, there were a number of follow-up items that still needed to be addressed; (c) data management tools and practices, while effective, needed to be improved; and (d) there would continue to be stress on the operating model in the future.

159. A peer survey of the Office of Investment Management was conducted against similar funds. The results of the survey indicated that, with $59 billion in assets under management as at 14 July 2017, the Fund was classified as a medium-sized fund. It was noted that, unlike most of the other funds in the survey, the Fund was mostly internally managed. Two general staffing trends were noted: (a) the greater the amount of assets under management, the more staff is needed; and (b) the more a fund is internally managed, the more staff is needed. It was also noted that the staffing levels of the Office of Investment Management were near or below average for the medium-sized peer group, even without adjusting for the much higher levels of internal management by the Office of Investment Management, especially in the information technology and business analysis areas.

160. The study contained 23 recommendations across the six major areas of the business — investment management, risk and compliance, trading, investment operations, data management and technology. The recommendations were in line with the priorities of the investment strategy of the Office of Investment Management and would allow the Office to build the basic infrastructure needed to handle the expected growth in the assets of the Fund over the next 5 to 10 years.

161. In response to the study, the Office of Investment Management embarked on a number of projects in 2018 that are aimed at improving the ICT infrastructure and applications environment. These projects cover a broad range of the business areas of the Office. The five major projects are: (a) implementing an alternative platform to handle private equity and real assets; (b) enhancing the risk management tools being used to perform oversight over the Fund's investment activities; (c) implementing a data warehouse to provide enhanced reporting and analytics capabilities to the Office; (d) enhancing the cybersecurity practices and tools supporting the Fund; and (e) modernizing the technology infrastructure of the Office to support the Fund's growth and to provide greater scale and ease of use.

162. The Chief Operating Officer then presented expenditure details and a timeline for implementation of individual projects under the target operating model, noting that the initial allotment of $2 million of the budget had already been committed and that it was expected that the additional $3 million that had been budgeted would be required for the completion of efforts related to the remainder of the programme for 2018 and 2019.

163. An update was then given on some of the specific accomplishments to date of the target operating model implementation programme, including the initial completion and distribution of requests for proposal for three major projects, on the alternatives platform, risk management and the data warehouse; the engagement of an external firm to conduct the cybersecurity and business continuity assessment; and the completion of a number of projects to help enhance the security and performance of the existing ICT infrastructure of the Office of Investment Management.

164. The Chief Operating Officer also noted that, while significant progress had been made in increasing the staff size within the ICT team and staff who had been recruited were adding value already, there are still a few key positions that needed to be filled as part of the build-out of the ICT team.

165. Finally, as part of the update on the ICT target operating model, it was noted that significant progress had been made in addressing and closing a number of the open OIOS audit items. The Chief Operating Officer reminded the Board that this was a top priority for the ICT team and noted that they had been able to close 16 of the 28 open recommendations since last year, 5 were pending review by OIOS and 7 would be addressed as part of the external cybersecurity and business continuity assessment.

Discussion in the Board

166. A representative of the governing bodies confirmed that he was aware of the challenges faced by the ICT group in the Office of Investment Management. He said that he recalled that the Audit Committee had wanted to hear about an overall strategy for a number of years and could never get a long-term perspective on what the Fund would look like going forward. He mentioned that he was pleased with the work that had been done by the Office of Investment Management and presented at the last Audit Committee meeting. He said that the detailed information that was presented would help the Board to get a better idea about the long-term view for the next 5 to 10 years and that the Board would have a better sense of what resources would be needed in terms of infrastructure and human resources for future budget requests.

167. The Chief Operating Officer confirmed that he would be presenting a plan to request resources, stating that there was a need to be able to support the growth and that resources were deficient in key areas. He said that the need for additional resources was especially important when the bulk of the assets were managed internally. He said that the request would be thoughtful and based on the needs of the Office of Investment Management and would incorporate peer benchmarks.

168. A member of the governing bodies said that a request for resources should be presented in a well-organized and detailed plan, comparing and contrasting the present and the desired future outcome. The goal was to clearly communicate with the Fifth Committee and the General Assembly.

169. A member of the executive heads remarked that the presentation was thoughtful and wanted to know whether the $5 million plan was the main plan, or would new ICT projects requiring additional resources be needed in coming years.

170. The Chief Operating Officer responded that he planned to take measured steps in meeting the needs of the Office of Investment Management. He had started work with his team to ensure that the ICT strategy supported the aim of the Office of Investment Management to be a best-in-class, long-term investment organization. He noted the work done by his team in closing out a number of open audit issues over the past year and the progress that had been made by his team on the target operating model. He noted that he had inherited a large number of open audit recommendations and a demoralized team when he arrived a little over a year ago and that it would take time to reach his goal to be best in class.

171. The Representative of the Secretary-General summarized the overall message of the Office of Investment Management by stating that the target operating model was the first step and that he would be requesting additional resources in the coming year for new ICT projects.

172. **The Board took note of the presentation.**

D. Progress report on risk management and compliance

173. The Deputy Director for Risk and Compliance presented the progress report on risk management and compliance and gave an update on various initiatives undertaken by the risk and compliance group of the Office of Investment Management.

174. Enhancements had been made to risk and performance reporting during 2017 through the introduction of new reports on contribution to risk, standard deviation and expected shortfall. The new reports supplemented the risk dashboard reports used to monitor tracking error on a weekly basis. The risk budget had been updated and new risk limits for currency and duration had been set for fixed-income investments. The risk team had initiated the process of enhancing the risk budget and risk limits methodologies. A risk committee and a compliance committee had been formed in December 2017. The purpose of the two new committees was to create a forum for the consideration of risk and compliance reports, as well as to review and approve proposals by the senior management of the Office of Investment Management for strengthening internal controls and indicators. The committees will meet at least four times per calendar year, and more frequently if needed.

175. In October 2011, the risk and compliance group had successfully implemented a portfolio risk analysis and performance attribution system known as RiskMetrics. The system, which was well recognized in the industry, was currently being used by the Office of Investment Management to monitor and report on the risk related to internally managed public markets portfolios relative to applicable benchmarks. In

2018, the Office of Investment Management would initiate a request for proposal process to either acquire a new portfolio risk analysis and performance attribution system or renew the contract with the existing vendor for the RiskMetrics system. A request for information process had been conducted in April 2018 and the Office of Investment Management was currently preparing the documentation required to move forward with a request for proposals.

176. A working group chaired by the Director of the Office of Investment Management had been formed to coordinate the initiation of a competitive bidding exercise for the selection of a consultant to assist the Fund with the asset-liability management study scheduled to be conducted in 2019.

177. The Office of Investment Management had implemented a quarterly strategic risk report, for which an external service provider had been contracted. The report would allow the Office of Investment Management to improve the consistency and continuity of its monitoring of the overall financial sustainability and performance of the Fund in the short term (up to 4 years). The report would provide long- and short-term risk decomposition, stress tests and updated optimizations within the strategic ranges for the Fund. It would also provide a quarterly report on the variables and objective functions relevant to the Fund.

178. The Office of Investment Management would begin the implementation of a new global equity benchmark (excluding tobacco and armaments) shortly. The agreements relating to the purchase of the new benchmark data from a third-party index provider had been finalized.

179. The Office of Investment Management had successfully implemented and closed 20 OIOS and 12 Board of Auditors audit recommendations since January 2018. The implementation and closing of the 27 outstanding OIOS items, which included 4 recommendations received in 2018, and 17 Board of Auditors audit recommendations, which included 8 recommendations received in 2018, was a high priority for the Office. The Office would devote considerable effort throughout the remainder of 2018 to closing as many of these outstanding recommendations as possible.

180. The annual ethics training session of the Office of Investment Management had been successfully conducted in October 2017. The training covered all Office of Investment Management compliance policies. For 2018, the Office would expand the component of the training pertaining to fraud awareness.

181. A test of the business continuity plan had been successfully conducted on 5 and 6 December 2017, with no issues raised by staff members of the Office of Investment Management. The information security team of the Office had confirmed that all scenarios had been tested. It had also been confirmed by information security staff that the Bloomberg Asset and Investment Manager access point on demand (access from a remote location) had worked well during the test and that there were no issues experienced when logging into Bloomberg Asset and Investment Manager.

182. Cybersecurity and business resilience were key operational risk factors to be considered while supporting the investment processes. Hence, in May 2018, the Office of Investment Management had initiated an ICT security risk management study, with the assistance of a specialized consulting firm. The study included six major components: (a) ICT security assessment; (b) implementation of an information security management system; (c) business impact analysis; (d) development of business continuity planning; (e) penetration testing; and (f) development of a security awareness programme. The study would identify gaps in relation to international standards, such as ISO 27002, and provide recommendations for mitigating risks and improving cybersecurity protection.

183. **The Board appreciated the comprehensive presentation.**

Chapter VIII

Medical matters: report of the medical consultant (rules of procedure, rule D.3)

184. The medical consultant to the Board presented a report with respect to the two-year period from 1 January 2016 to 31 December 2017. The report contained detailed information and analysis regarding the new disability benefits awarded during that period, together with data on new benefits for disabled children and on the deaths of participants while in service. The report contained an analysis of the incidence rate for new disability cases of 0.96 per thousand participants, which was an increase from the rate of 0.69 reported for the previous biennium. The report also provided the diagnostic categories by gender and the average age, as well as the average contributory service, of UNJSPF participants to whom new disability benefits were awarded.

185. The medical consultant noted that the leading cause of disability cases continued to be psychiatric (38 per cent), which, combined with the following three diagnostic categories, represented over 85 per cent of all new disability cases: neurological (20 per cent), neoplasm (16 per cent) and orthopaedic (11 per cent). Of note was the 5 per cent decrease in psychiatric cases, the 5 per cent increase in neurological cases and the 5 per cent increase in neoplasm cases compared with the previous biennium. The medical consultant also provided statistics on the average number of years of contributory service by diagnostic category, with the average number of years of service in psychiatric cases being 17 years, in neurological cases 14 years and in neoplasm cases 12 years. A total of 129 deaths in service had been reported, presenting an average annual mortality rate of 1.01 per thousand, the lowest rate since 2008–2009.

186. With respect to new benefits for disabled children, a total of 89 new cases had been awarded during the period under review. The main causes of disability were psychiatric (55 per cent of the cases), congenital (18 per cent of the cases) and neurological (17 per cent of the cases).

187. The medical consultant presented actions that had been taken to address the leading causes of disability. The first concerned the mental health strategy for the United Nations system for 2018–2023, which had received strategic support at the meetings of the High-Level Committee on Management held in September 2017 and April 2018. The General Assembly had recognized the value of the work by providing funding in the budget for the Medical Services Division of the United Nations Secretariat for the biennium 2018–2019 for a Senior Mental Health Officer to serve as the global lead for the strategy. The strategy was developed by a multidisciplinary, multi-agency working group and comprised four strategic themes with 11 underpinning strategic objectives.

188. The second strategy, which concerned occupational safety and health, was under the auspices of the United Nations Medical Directors Network. The Network had successfully sponsored a United Nations system occupational safety and health framework, which had been endorsed by the High-Level Committee on Management. The medical consultant also noted that the Secretary-General's bulletin on the introduction of an occupational safety and health management system had been promulgated by the Secretary-General at the end of July 2018. In addition, the Medical Services Division had contributed to the Inter-Agency Security Management Network road safety working group, in recognition that motor accidents were one of the leading causes of harm to United Nations personnel. The Network had developed air pollution guidelines for duty stations and created an implementation task force to support duty stations that were affected. The Department of Field Support had

continued its robust implementation of a field safety programme, with incident reporting. The Medical Services Division had defined mandatory health support elements for duty stations, which had been endorsed by the High-Level Committee on Management.

189. The Board considered the report of the medical consultant. A member of the governing bodies group asked about the types of measures used with respect to air pollution. The medical consultant explained the steps that were taken, depending on the extent of the problem. A member of the participants group asked about measures in place to prevent misuse of the provision for disability benefits by member organizations as a way of handling difficult workplace situations. The medical consultant indicated that steps were taken to ensure that there had been attempts to bring the participant back to work before he or she was considered for a disability benefit. Another member of the participants group noted the high incidence of child psychiatric cases and wondered what the causes for the increase were. The medical consultant stated that the increase in the number of cases could be attributed to improved diagnostic measures and that she hoped that better education of participants on treatment would also apply to children who are disabled. With regard to the incidence of new disability cases per thousand participants, a member of the participants group noted that the small number of participants in some member organizations skewed the rate of disability incidence. This was especially evident for organizations with less than 50 participants, where one case could cause a huge change in the ratio. Members of the Board requested that future reports include information at a more granular level on individual member organizations. The medical consultant stated that such information was available from the Medical Directors of each member organization, but that it would be included in future reports. **The Board took note of the report of the medical consultant for the biennium 2016–2017.**

Chapter IX
Financial matters

A. Financial statements for the year ended 31 December 2017

190. The Pension Board considered the financial statements of the Fund for the year ended 31 December 2017. They were the Fund's fifth financial statements prepared in accordance with IPSAS and IAS 26. Comparative information for the financial period ending 31 December 2016 is also presented in the financial statements.

191. The submission included a letter of transmittal signed by the Deputy Chief Executive Officer and the Representative of the Secretary-General, a statement of certification signed by the Chief Financial Officer and approved by the Deputy Chief Executive Officer and the Representative of the Secretary-General, the financial overview, the financial statements and an annex with statistics on the operation of the Fund (see annex VIII).

192. The Chief Financial Officer explained that the statement of internal control accompanied the financial statements. The Fund had introduced the statement of internal control in 2013 and had gradually increased the scope of the statement each year. In 2017, the project had been completed with the first testing of internal controls and enhanced documentation of the internal controls applied in the preparation of the census data to be used for the actuarial valuation. The Fund was one of the few United Nations system entities that had completed the full scope of the statement of internal control.

193. During the financial period ended 31 December 2017, the net assets available for benefits of the Fund had increased in value from $54.5 billion to $64.4 billion, reflecting an increase of $9.9 billion, or 18.1 per cent.

194. Under IPSAS, the Fund recognized all realized and unrealized gains via investment income and introduced positions of net appreciation in the fair value of assets and foreign currency gains and losses. As a result, for the year ended 31 December 2017, investment income amounted to $10.2 billion. This compares with investment income of $2.7 billion for the year ended 31 December 2016.

195. The investment income for the year ended 31 December 2017 included the total change in the fair value of financial assets of $9.1 billion. This compares with the total change in fair value of the financial assets of $1.6 billion for the year ended 31 December 2016.

196. During the year ended 31 December 2017, the contributions to the Fund amounted to $2.4 billion, an increase of $127.4 million (or 5.6 per cent) compared with 2016. Over the same period, benefit expense amounted to $2.7 billion, an increase of $166.8 million (or 6.7 per cent) compared with 2016, exceeding contributions by $272 million (2016: $232 million).

197. The Chief Financial Officer explained that note 19 to the financial statements referenced the actuarial valuation undertaken as at 31 December 2017. The present value of accumulated plan benefits with adjustments amounted to $55.8 billion (without adjustments $41.6 billion), which was exceeded by net assets available for benefits of $64.4 billion.

198. During the period from 31 December 2016 to 31 December 2017, the number of participants in the Fund decreased from 128,262 to 126,736 and the number of periodic benefits increased from 74,788 to 78,247. The Chief Financial Officer explained that, until the year 2016, the statistics had been presented as at 31 December based on the information available as at that date. Accordingly, information which

became available after 31 December was not reflected. From 2017, the Fund decided to align the methodology used for the statistical data as at 31 December 2017 with the approach used in the financial statements. Consequently, the statistics as at 31 December 2017 now reflect all the information available at the time of the cut-off date, which was 7 April 2018. Based on the methodology used in 2016, the comparable number of participants for 31 December 2017 amounted to 129,354 participants (an increase of 1,092, or 0.9 per cent), and the comparable number of periodic benefits using the method employed for 31 December 2016 totalled 74,092 benefits in payment (a decrease of 696, or 0.9 per cent).

Discussion in the Board

199. The Board thanked the Chief Financial Officer for the presentation of the financial statements. A Board member asked for clarification about the differences between the actuarial liabilities presented in the financial statements and those presented in the report of the consulting actuary.

200. It was explained that the financial statements provided a view of the status at the closing date of the financial statements as at 31 December 2017. However, the actuarial report provided a forward-looking view of the funding situation of the Fund and included future assets and liabilities that were not recognized in the financial statements.

201. The Representative of the Secretary-General mentioned that it was important to understand the difference between the reports. There were significant and material differences. The liabilities noted in the financial statements were based on a closed group, assuming that the Fund would be closed to new entrants as at 31 December 2017. It disclosed unadjusted liabilities, which were not adjusted for future cost-of-living adjustments, as well as adjusted liabilities reflecting future cost-of-living adjustments. Under the Fund's Regulations, both numbers were presented as liabilities, as member organizations could be required to cover potential deficits under article 26. He also mentioned that the assets in the financial statements were presented at their fair value as at 31 December 2017. Considering the volatility of the financial markets, the assets in the actuarial valuation were smoothed, using a formula which took into account asset values over several preceding years.

202. The Chief Financial Officer mentioned that the Board of Auditors had issued an unqualified opinion and that its report did not contain any observations with respect to the financial statements. The disclosure in note 21 of the financial statements addressed the disclosure requirements of IPSAS 30, which were exclusively related to the financial instruments of the Fund and were provided by the risk and compliance group of the Office of Investment Management. They did not relate to the risk management of the Fund secretariat.

203. The participants group asked if the cost of unused space was reflected in the financial statements. The Representative of the Secretary-General said that, speaking only for the Office of Investment Management, he had taken steps to optimize space by giving up an entire floor. The Office of Investment Management would need more space, as the staff of the Office would increase in the future. However, he expected savings for a period of 18 months to 2 years. There was no expense incurred by terminating the lease.

204. A representative of the participants group suggested that the financial statements be provided to the Pension Board at an earlier date, even if the audit opinion had not been issued. This should permit a rigorous review of the financial statements prior to the session of the Board.

205. A representative of the executive heads thanked the Fund for the information provided in the financial statements, which gave a different view from that in the actuarial report. She mentioned that the members of the Board of Auditors team from the Indian Audit and Accounts Service were very professional and thorough auditors. She stated that the Pension Board could be assured that the external auditors had done thorough work and she complimented the Fund for receiving a clean audit opinion.

206. A representative of the participants group asked about the difference between the value of the financial instruments disclosed in the financial statements and the value disclosed in the investment reports published by Office of Investment Management. He also inquired about how the financial statements were made available to the general public.

207. The Chief Financial Officer responded that there were two inherent differences between the values presented in the financial statements and the investment reports. The investment reports were limited to the investments managed by the Office of Investment Management and were published based on the latest information available to the Fund's master record keeper, at the time of publication. The financial statements recognized all financial instruments of the Fund, which also included those of the secretariat of the Fund (receivables, cash and other assets). In addition, the financial statements presented an updated value for those investments which were not publicly quoted, based on financial information received from the investees. He also mentioned that the 2016 financial statements were published on the Fund's website and that the 2017 financial statements would also be published after the session of the Board.

208. The Representative of the Secretary-General confirmed that all reports published by the Office of Investment Management were prepared by the Fund's independent master record keeper. All values for the investments reports were finalized by April, when the master record keeper closed the accounts, while the financial statements took into account information received up to the time of finalizing the statements. He also indicated that the Fund was reviewing cash balances held by the secretariat of the Fund, since there were costs related to those cash balances which were incurred by the Fund in terms of foregone investment returns. There might be good operational reasons to maintain those cash balances, but the secretariat of the Fund and the Office of Investment Management planned to review them.

209. The Chair noted that the Fund's withholding tax receivables from Germany, Switzerland and the United Kingdom of Great Britain and Northern Ireland had increased significantly and asked if the Fund had encountered a problem recovering those taxes. The Chief Financial Officer explained that the table in note 8 of the financial statements presented the tax receivables and the portion deemed not recoverable. For the three countries mentioned, the receivables had increased substantially. However, the full amounts had been deemed recoverable based on the Fund's experience claiming those taxes. A member of the Assets and Liabilities Monitoring Committee mentioned that the disclosure of the portion deemed not recoverable was related to a financial reporting requirement. The United Nations did not give up those receivables and would continue to recover them regardless of their accounting treatment. A representative of the participants group suggested that a disclosure for forfeitures be reinstated in future financial statements.

210. **The Board took note of the unqualified audit opinion of the Board of Auditors and approved the financial statements for the year ended 31 December 2017.**

211. The financial statements for the year ended 31 December 2017 can be found in annex VIII to the present report.

B. Changes to the budget process of the Fund

212. The Chief Financial Officer explained that the Fund currently followed the United Nations Secretariat's biennial budget cycle and utilized the format of the submissions prescribed by the Secretariat. That approach facilitated the review and decision-making of the Pension Board, the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee of the General Assembly. He informed the Board that the United Nations Secretariat would change to an annual budget cycle and introduce a revised and simplified format for the budget submissions beginning with the year 2020 on a trial basis.

Discussion in the Board

213. The governing bodies supported the introduction of the annual budget and the revised approach to budget documentation on a trial basis. They mentioned that the introduction of an annual budget cycle might trigger a need for a budget committee. The Board noted that the change would introduce more Board involvement on budget matters. It was noted that a budget committee could review the budget every year or the Board could entrust this to the Standing Committee. The Fund should continue to follow the format and cycle utilized by the United Nations Secretariat for 2020, as an exception, and the Board would have more information at its sixty-sixth session to make a decision.

214. A representative of the executive heads mentioned that the Board should focus on an approach that was right for pension fund management. An annual budget process would need to be more streamlined and results-oriented than the present process. The budget for the Pension Fund should utilize a straightforward approach.

215. The Chief Financial Officer stated that the Fund's management had participated in workshops with the United Nations Secretariat on developing the new budget documents. The new framework would provide significantly greater flexibility than the current one and would address the specific needs of the Fund. He reiterated that it was desirable to align the documentation and cycle with the United Nations, given that the budget was presented to the Advisory Committee on Administrative and Budgetary Questions and the General Assembly, and that those bodies had requested that budget documentation be aligned with that of the United Nations in the past.

216. **The Board recalled that the Pension Fund, with the concurrence of the Board and of the General Assembly, had long followed the format and cycle of the programme budget of the United Nations. The Board noted that the Assembly had approved the Secretary-General's proposed change from a biennial to an annual budget on a trial basis, beginning with the programme budget for 2020, and requested the Secretary-General to conduct a follow-up of changes to the budgetary cycle in 2022 (resolution 72/266 A, para. 6). The Board recalled that article 15 (b) of the Regulations of the Fund provided that biennial estimates of the administrative expenses of the Fund, which were met by the Fund, would be submitted to the Assembly for approval.**

217. **The Board requests the General Assembly to acknowledge that in order to similarly effect a change from a biennial to an annual budget for the Pension Fund on a trial basis, beginning with the budget for the year 2020, an exception to article 15 (b) of the Fund's Regulations would be required. Such an exception would be subject to the follow-up review by the Secretary-General in 2022 and to the review by the Assembly at its seventy-seventh session.**

218. **Subject to such acknowledgement by the General Assembly and in order to continue to align the format and cycle of the budget of the Pension Fund with**

that of the United Nations, the Board requested the Fund to propose an annual budget on a trial basis, beginning with the budget for 2020. The Board considers that such a change in the format and cycle of the Fund's proposed budget will enhance the flexibility of budgeting and will result in more concise and more meaningful budget documentation.

Chapter X

Administrative matters

A. Lessons learned from the end-to-end review of the separation-to-benefit process

219. It was recalled that the Fund, in cooperation with five member organizations/reporting entities, conducted an end-to-end review of the separation-to-payment process in 2017. The representative of the secretariat of the Fund thanked the five entities that had volunteered to take part in the review: WHO, the Department of Field Support, UNICEF, United Nations Secretariat and FAO/WFP. The Board was informed that five separate detailed reports had been drafted, one for each participating entity. A summary report had also been produced for the consideration of the Pension Board.

220. The main lessons learned from the study included the following:

(a) From a participant's perspective, the current model is cumbersome and difficult to understand, as it is fragmented;

(b) The period of time taken to complete the human resources and payroll processes and provide the separation documentation to the Fund varied considerably;

(c) The systems that have been deployed recently across the member organizations and the Fund are still at different stages of stabilization and there are opportunities to exploit these modern systems to the benefit of everyone, including the participants;

(d) The separation process relies on the production and movement of a vast number of paper-based forms and original documents. This causes significant delays in the process, particularly if the forms have been completed incorrectly or have not been signed;

(e) In some organizations, there is no distinction between human resources activities that relate to the participant's pension versus non-pension separation activities (e.g., the return of the Organization's assets, such as a laptop);

(f) It is fairly common for member organizations to change historic data, particularly contribution data;

(g) Besides the annual meeting of the secretaries of the staff pension committees, there is no single operational forum for more periodic collaboration between all the parties.

221. Based on the findings and industry best practices, the study proposed an integrated target operating model. It was recalled that the summary report and the integrated target operating model were presented to the Pension Board at its sixty-fourth session, in July 2017. It was the view of some Board members that consideration of the integrated target operating model was premature, as there were still solutions to be developed in relation to the Integrated Pension Administration System and other items.

222. The Board was informed that the Fund had taken into consideration the lessons learned from the review and the Board's comments, and had taken the initiative to implement the short-term recommendations of the review. The actions taken fell into the following seven main categories:

(a) Exchange of data between the Integrated Pension Administration System and Umoja (in cooperation with the United Nations Secretariat). As a result of the project, it is expected that, moving forward, a single source of data, available to all stakeholders, will minimize delays and errors in transferring data between functions and lead to a quicker and more accurate provision of separation information;

(b) Accuracy of contributions (ICAO pilot monthly reconciliation of contributions and WHO review of participant reconciliation exceptions);

(c) Integrated Pension Administration System enhancements (deployment of enhancements and changes and increased automation);

(d) Improvement in interfaces;

(e) Client services and communications;

(f) Member self-service;

(g) Forms (smart forms project).

223. The Board was informed that the actions taken over the past year by all the different sections of the secretariat of the Fund together with member organizations had contributed to significant improvement in the percentage of cases processed within 15 business days to above 60 per cent (compared with 27 per cent in 2016). The median processing time as of June 2018 was 12 business days. Ninety-five per cent of phone calls were being answered. Eighty per cent of emails were responded to within 15 business days. The Fund was looking forward to achieving further improvements in the coming years.

224. One of the representatives of the United Nations participants stated that the end-to-end review had cost $1.2 million and, in her view, represented a waste of the Fund's resources. In her view, most of the initiatives recommended had already been in the target operating model and implemented in the Integrated Pension Administration System and others had been rejected. The secretariat of the Fund welcomed her views and explained that business users often have a better understanding of system capabilities and the need for enhancements after using a new system for a while.

225. A representative of the governing bodies noted that it was clear that a lot of work had been done by the staff of the Fund and asked what kind of feedback the Fund had received from participants and beneficiaries. FAFICS agreed with the governing bodies, emphasizing that significant improvements had been achieved in all areas. With regard to client services, FAFICS emphasized that a significant share of its constituents were not conversant with email and the Internet and that it was necessary to serve the needs of those clients through alternative channels. The secretariat of the Fund welcomed those views and noted that, with those comments in mind, the Fund was setting up toll-free numbers in many countries, as well as opening liaison offices and expanding outreach efforts.

226. A representative of the IAEA participants echoed the positive comments made by previous speakers and noted the need to be continuously innovative. He suggested reviving the concept of the integrated target operating model, recalling that at the previous session several organizations had volunteered to be part of the pilot. IMO volunteered to be part of the implementation of the model. The secretariat of the Fund thanked IMO for the offer.

227. A representative of the WHO participants noted that a low-cost solution would be to look at agencies that retain separation documents owing to issues not related to pensions. She also asked whether pension matters were included on the agenda of meetings of the Human Resources Network. The secretariat of the Fund confirmed that the Deputy Chief Executive Officer and the Chief of Operations regularly attended the meetings of the Human Resources Network and briefed it on processing rates and other pension-related matters.

228. A representative of the participants group asked why automatic notification letters and some other features in the Integrated Pension Administration System were suppressed. The secretariat of the Fund clarified that it was felt that sending a report on all the missing documents to a focal point in the member organization would be more efficient than sending possibly hundreds of letters on missing separation notifications. In the longer term, the Fund was hoping to make the case status available to all stakeholders electronically and in real time. The secretariat also explained that not all features had been fully tested.

229. The representatives of the United Nations participants noted their concern about many participants being disconnected after separation, and urged the Fund to strengthen direct communication with separating staff. With regard to staff serving in the field, the secretariat of the Fund explained that the Fund held regular meetings with the Field Personnel Division of the Department of Field Support to discuss the status of outstanding cases and to identify potential improvements in the separation-to-benefit process. The representatives acknowledged the improvements in benefit processing and thanked the Chief of Operations.

230. A representative of the governing bodies asked that in the future more specific statistics on delays in documents be provided. Another Board member suggested that future reports include the views of the secretaries of the staff pension committees. The Secretary of the FAO/WFP Staff Pension Committee thanked the Fund for new features that had been made available to the secretaries of the staff pension committees in the Integrated Pension Administration System.

231. A member of the Assets and Liabilities Monitoring Committee noted the improvement in client services over the past two to three years, including the increase in channels of communications. He asked whether there was a record of phone calls received. In response, the representative of the secretariat of the Fund explained that all the calls were logged and recorded in the participant's file. In the case of calls received outside of working hours, the client was able to leave a voicemail and a staff member would call back.

232. The Fund's Chief Information Officer noted that information technology did not exist in isolation. He stated that the process first needed to be designed in consultation with the staff involved and then it could be translated into a technical solution. He noted that there was a need for one version of the truth where organizations and staff could see the status of all documents.

233. The Deputy Chief Executive Officer noted that the Fund had been given a clear message last year to get back to basics — no new technology and no pilot initiatives unless approved by the Board. Opportunities for improvement had been categorized by the Fund as short-, medium- and longer-term opportunities. The good progress was the result of hard work by the staff of the Fund. In view of the positive feedback received, the secretariat of the Fund agreed to look into the possibility of reviving the concept of the integrated target operating model.

B. Status of the information and communications technology systems and initiatives

234. *The status report on the ICT systems of* the secretariat of the Fund was introduced by the Chief Information Officer.

235. The Chief Information Officer presented an initial overview of the three main areas of ICT focus in the Fund, which were aimed at: (a) stabilizing the Integrated Pension Administration System; (b) strengthening information security; and (c) increasing the coverage of data interfaces.

236. The Board was informed that the stabilization of the Integrated Pension Administration System was being achieved through a more systematic approach to change management, with less frequent releases (i.e., quarterly rather than monthly) and extended and improved testing. The key deliverables included enhancements of estimates/calculations for the dollar track and improved capabilities for beneficiaries to enter/maintain their address information.

237. Further details were provided concerning additional ICT initiatives implemented by the Fund to support the three main focus areas. The additional initiatives included the implementation of measures to comply with new legal requirements with respect to anti-money-laundering controls; updates to the cost-of-living adjustment calculations for clients in special circumstances; changes in the workflows and distribution of cases; completion of the first phase of the monthly financial interface; deployment of usability and performance improvements for the contributions processing ("year-end") functionality; a new application for smartphones; improvements in data quality, business intelligence, the website, the ICT infrastructure and service management; and measures/tools deployed to improve the ability of the secretaries of the pension committees to access the ICT systems of the Fund.

238. Particular emphasis was also placed during the presentation of the ICT status update on the two call centres that had been established in North America and Europe, the progress made in the end-to-end review and the development of "smart forms".

239. With regard to the activities planned for short-term implementation, details were provided about the initial deployment of toll-free numbers and the measures envisioned by the Fund for the implementation of a grievance redressal system.

240. In the area of ICT security, the Fund confirmed its continued compliance with the international standard for information security management (i.e., ISO 27001); the hiring of an additional dedicated Professional staff member; the deployment of an intrusion detection system; the implementation of additional protective controls for the Integrated Pension Administration System; and the conduct of consistent security awareness initiatives.

241. In the area of data interfaces, the Fund confirmed that new member organizations had been added to the human resources data interface platform, as the result of which 98 per cent coverage of the total population had been achieved. Additional measures had been implemented in this area, with a new functionality added to the human resources interface in 2017, and improvements had been made in straight-through processing to route workflows for separations, deaths in service, transfers and reappointments. With regard to the contribution data, it was confirmed that, during the reporting period, 20 per cent of the contributions of member organizations were received on a monthly basis and that the Integrated Pension Administration System enhancements related to this process had been completed. The Board was also informed that a project had been started in July 2018 with ICAO to process contributions data into the Integrated Pension Administration System on a monthly basis.

242. An update was also provided with regard to the completion of the consolidation of ICT services between the Fund and the Office of Investment Management, which had originally been requested by the Pension Board in 2007. The Board was informed that the ICT consolidation had been implemented and had progressed well during the period from 2007 to 2014, when significant benefits had been achieved through the consolidation of 27 ICT services. Beginning in 2015, however, the benefits of the ICT consolidation had gradually diminished, when both the Fund and the Office of Investment Management outsourced the provision of their ICT infrastructure services to the United Nations International Computing Centre, acquired mission-specific applications and ICT systems from third-party providers and retired their previous

legacy applications. The Board was asked to note that the ICT consolidation between the secretariat of the Fund and the Office of Investment Management had achieved its intended results and that, therefore, in accordance with the new ICT service delivery models and strategies adopted by each office, the ICT consolidation was no longer required to ensure efficient and effective use of ICT resources.

243. A specific section of the presentation was then dedicated to the challenges and limitations encountered by the Fund in the ICT domain. The Chief Information Officer indicated that, because of the volume and sensitivity of the data handled and the complexity of the processes performed by the Fund, some inevitable challenges had been encountered. Challenges had been experienced in the year-end processing, regression testing, import of dependants' data through the human resources interface and the retroactive processing of certain key scenarios in the Integrated Pension Administration System (e.g., transfer without prior separation and part-time percentages). The Fund further indicated that a due diligence study had been initiated for the identification of mitigating measures for the challenges encountered. The study had been conducted in accordance with the provisions included in the Integrated Pension Administration System contract for the development and definition of software upgrade strategies, considering the features offered by the new version of the System released in the market by the software vendor. Furthermore, the Fund indicated that the details of any request for financial resources associated with a potential upgrade of the System would be submitted to the Board at its sixty-sixth session.

244. The status update was concluded with an overview of the progress made by the Fund in the implementation of ICT-related audit recommendations in the area of information security, problem and issue management, business continuity and disaster recovery, data accuracy and migration issues, exchange of separation information and documents with member organizations, year-end reconciliation of contributions and feedback mechanisms available on the Fund's website.

Discussion in the Board

245. FAFICS inquired about the opportunities and expected benefits of the potential upgrade of the Integrated Pension Administration System, whether this would represent a new phase of the System, if the Fund had already made any commitments in this matter and whether any financial resources would be requested outside of the current budget. The governing bodies concurred with the comments and questions raised by FAFICS and noted that, although the report had been submitted for information, some of its aspects could have budgetary implications. An additional question was asked concerning whether the call centres established by the Fund could operate on a 24/7 basis, following the same approach adopted by the United Nations Federal Credit Union.

246. The Chief Information Officer indicated that some preliminary expected benefits of the upgrade of the Integrated Pension Administration System could include financial savings deriving from the adoption of a more efficient solution based on "cloud" technologies and the use of an open-source database software. An additional potential benefit was also offered in the upgraded version of the System through the inclusion of an integrated module for managing the grievance redressal data and processes. He stated that, at this stage, the Fund had not made commitments with regard to any element of the upgrade and that any financial and budgetary implications would be submitted for review by the Board at its sixty-sixth session. He also indicated that, while there were no plans to extend the hours of operation of the call centres to a 24/7 basis, the Fund was planning to create an additional call centre hub in Asia, in accordance with General Assembly resolution 72/262 A.

247. The participants group asked whether and how the planned adoption of the new release of the Integrated Pension Administration System would address the recommendation by the Board of Auditors that a system audit of the System be conducted. A question was also asked about the rationale behind the disabling of certain features of the System, in particular the one associated with the automatic issuance of follow-up letters to the human resources offices of the member organizations when cases could not be processed by the Fund. Other questions pertained to whether calls made to the call centre were recorded and tracked and the rate of success of the data transfers with respect to the 20 per cent of contributions of member organizations that were received on a monthly basis. In addition, there was a request to extend access to the business intelligence dashboard to staff of staff pension committees. There was a question about what measures could be put in place for improving communication between the time staff separate from the organization and the time they receive their payments. A concluding question pertained to why the planned deployment of toll-free numbers did not include any country in the Middle Eastern region.

248. The Chief Information Officer indicated that, since the Integrated Pension Administration System had already been the subject of internal and external audits, as well as of a technical health check conducted by an external company, the Fund intended to implement the recommendation of the Board of Auditors by engaging an expert organization to review and identify whether systemic benefits could be achieved with the adoption of the upgrade of the System. He stated that calls to the call centre were not taped, but that their essential elements were systematically logged and monitored through an automated call distribution system and, when necessary, escalated to the Fund's client services. He indicated that details related to the success rate of data transfers between the Fund and member organizations would be provided separately following the Board's session. He further indicated that, while, in the past, the access of staff pension committees to the business intelligence dashboard had been limited because of the cost of software licenses, the Fund was adopting a new tool that would enable an extension of this access to more members of the staff pension committees. Such access could, however, be limited to the specific data of their organization. An initial option (i.e., information kiosks) had been envisioned within the United Nations Secretariat to allow staff who had separated from the Organization to monitor the status of their separation documents. However, owing to security concerns, this option was no longer being pursued. Accordingly, the Department of Management of the United Nations Secretariat, in collaboration with the secretariat of the Fund, had started an initiative — within the context of the end-to-end review — to implement an enhanced human resources data interface that would include data about the status of separation documents. This solution would enable staff that had separated from their organizations to track the status of all their documents in one centralized repository, namely, the member self-service portal provided by the secretariat of the Fund. Once the solution was tested, it was expected that it could be extended to other member organizations. The initial deployment of toll-free numbers had included countries that had been identified on the basis of the volume of calls received by the call centre of the Fund during the past year. The Fund was committed, however, to implementing toll-free numbers globally, subject to their availability. Where toll-free numbers were not available, the Fund was already planning to establish local phone numbers that would enable callers to contact the Fund at significantly reduced local rates.

249. **The Board took note with appreciation of the report on the status of ICT initiatives.**

C. Status report on the Emergency Fund

250. Since 1976, the Emergency Fund has been used to provide relief in individual cases of proven hardship owing to illness, infirmity or other personal emergencies. The Emergency Fund, which is not an integral part of the pension benefit system, is financed from the assets of the Fund through an appropriation of $225,000, as approved by the General Assembly.

251. During the two-year period under review, the total amount paid out from the Emergency Fund was $156,683, representing 101 disbursements, bringing the Emergency Fund spending to a record high. At the request of the Board, the Fund has made concerted efforts to promulgate the availability of the Emergency Fund on its website, in the pre-retirement seminars and pension briefings and in various communications to participants and retirees. The majority of the disbursements from the Emergency Fund for the biennium were one-time payments to beneficiaries who were affected by the flooding which took place in Chennai, India, in December 2015, followed by one-time disbursements to beneficiaries who had proven hardship in paying for medical expenses. The third largest number of payments made was to assist with funeral expenses for deceased beneficiaries. The largest single payment made during the two-year period under review was for $28,820 to a beneficiary in El Salvador to assist with uninsured medical expenses.

252. In line with its more proactive approach in providing assistance from the Emergency Fund, which started in 2013, the Fund was pleased to report that, during the biennium, the Fund had reached out to the beneficiaries who might have been affected by natural disasters. In this connection, during the reporting period, 43 disbursements were made to beneficiaries affected by the flooding in Chennai, India, 9 disbursements were made to beneficiaries affected by the earthquake in Mexico in September 2017 and 3 disbursements were made to beneficiaries affected by the cyclone in Fiji. In addition, the Fund has made arrangements to facilitate the processing of payments to beneficiaries affected by the mudslides in Sierra Leone in August 2017 and to beneficiaries in the Caribbean affected by Hurricanes Irma, Jose and Maria, which struck the area in September 2017.

253. During the discussion in the Board, a member of the participants group recognized the Fund's efforts to promulgate the availability of this provision. Nevertheless, it was felt that more could be done to further promote this. There was a suggestion that the staff in human resources departments be made aware of the existence of the Fund so that they could include this information in the separation or exit briefings. A question was then raised concerning the number of cases in progress, as reflected in the report, and, in particular, whether the cases from previous years were still under consideration or were already closed. In this regard, it should be noted that the information in the report referred to the number of requests under consideration at the end of that particular year (60 at the end 2017, comprising 42 from 2017, 14 from 2016, 3 from 2015 and 1 from 2014). It was then suggested that the secretariat include an ageing report in future reports. Another idea was to keep items active for no more than six months instead of dealing with ageing reports.

254. FAFICS mentioned the discussion of the report at the FAFICS Council and acknowledged that the secretariat had become more responsive in handling requests for emergency funds and appreciated the timely disbursements. It was stated that the staff pension committees could and should play a more active role in the process by assisting in spreading knowledge of the Emergency Fund. FAFICS also raised its previous proposal for an end-to-end review of the process to reveal the reasons for any delay in the processing and release of funds. It also suggested that the Emergency Fund booklet be attached to the benefits entitlement letter.

255. The representatives of the United Nations participants expressed concern that the increase in the number of awards was not the result of requests to the Emergency Fund, but was mostly an internal initiative whereby awards were made to those in natural disaster areas, and therefore an average of only 25 were granted per year to those requesting award.

256. Some concern was expressed with regard to the need to ensure equitable treatment across all cases. If a high-value case were to be received at the end of the biennium, there would be a risk that the pattern of disbursements would be distorted. It was clarified that guidance as to the amount of the award was not set in stone. The amount of the award was rather based on the circumstances of the case.

257. In summary, there was an overall acknowledgement and appreciation of the Fund's efforts in this area. However, the need for more publicity about the Emergency Fund, including the involvement of human resources staff and more emphasis in retirement briefings, was reiterated.

258. In response, the secretariat of the Fund referred to the promotional efforts made, including identifying needs through the new officer in Nairobi (particularly since amounts were smaller and there was no State social security safety net in most of Africa). Replies were provided to several questions, including that concerning limits (ceilings) on individual cases. The secretariat of the Fund stated that norms had been established for a particular natural catastrophe based on the numbers affected and the funds available, with $500 being the per head figure agreed for Chennai, for example. There was no overall ceiling for rewards. Finally, the secretariat also highlighted the fact that, in the past three years, it had begun taking a more proactive approach in inviting retirees and beneficiaries to take advantage of the Emergency Fund provision, especially in the aftermath of a natural calamity. This had resulted in an increase in the amount of spending and if this were to continue, the secretariat could ask for an increase in the amount of the Emergency Fund.

259. **The Board took note of the status report on the Emergency Fund for the period from 1 January 2016 to 31 December 2017, including the total of $156,683 paid out, representing 101 disbursements. Reporting would continue to be every second year, as decided by the Board at its fifty-eighth session.**

D. Amendment to the provisional payments mechanism

260. A document prepared by the representatives of the United Nations participants and submitted by the United Nations Staff Pension Committee to the Board proposed significant changes to a decision taken by the Board during its sixty-third session. In accordance with article 7 (c) of the Regulations of the Fund, the Board had authorized the Chief Executive Officer to implement a measure for provisional payment that would be applicable only to periodic benefits that had not been put into payment within three months (90 days) of receipt of all documentation required for processing the benefit. The proposal of the United Nations Staff Pension Committee included a much wider-reaching measure to process such outstanding benefits without receipt of the final separation notification from the member organization and extend the applicable exception to full withdrawal settlements and to survivor benefits if the Fund is reasonably sure as to the entitlement of the claimant.

261. The representatives of the United Nations participants felt that the measure that was approved by the Board in 2016 was ineffective. They noted that not a single beneficiary had benefitted from the measure because of the condition imposed that complete separation documents must be received in order for a benefit to be processed. Furthermore, if complete documentation had been received, there would be no reason for the Fund to make a provisional payment.

262. To further support their proposal and also to demonstrate that their proposal would not result in additional work for the Fund, the representatives of the United Nations participants submitted supplemental information describing in detail how the Fund should handle the processing of the provisional payment in the Integrated Pension Administration System.

263. The secretariat of the Fund, in its presentation to the Board in response to the proposal, sought clarification of some of the points in the proposal, such as, what the trigger point would be for making such provisional payments for spouse/orphan benefits, whether the Fund should pay 50 per cent or 80 per cent and what "reasonably sure" meant.

264. The secretariat emphasized that the 2016 decision of the Board was aimed at dealing with the payments backlog in the Fund, while the current proposal aimed at dealing with the documentation backlog in the member organizations. Serious concern was expressed about the effects that this expanded measure would have on the workload and the overall processing rates, as well as the legal and control risks. As of December 2017, the percentage of initial benefits processed and paid within 15 business days was 62 per cent. The Fund was processing 80 per cent of cases within the same month it received them. The measure, if approved, would involve significant additional work for the Fund, adversely impacting the processing rates. Processing a benefit without the usual required separation notification form meant that the proper amounts payable would not be known when the provisional payments were to be certified and therefore, such payments would be in contradiction of article 7 (c). Other complications were likely to arise for the beneficiaries, such as difficulties with tax reporting, cost-of-living increases, currency movements, after-service health insurance amounts and bank charges.

265. Some representatives of the participants group emphasized that the provisional payments proposal arose from, but was not limited to, the backlog of benefit payments.

266. In the discussions that ensued, the participants group suggested the possibility of creating a working group, but the suggestion was not taken up further by the Board.

267. The governing bodies stated that they could not support the current proposal to amend the provisional payments mechanism. They would, however, like to propose that the Board request the secretariat to review the issue and provide the Board with further information, with details agency-by-agency, and advise the Board on any relevant mitigation that might be put in place in the future.

268. They also requested the Board to urge the agencies to be proactive and take expeditious action to finalize all arrangements related to the processing of the relevant documentation. The Board must also highlight the importance of participants/prospective beneficiaries being proactive in ensuring that all the documentation required from them is in order.

269. **The Board decided not to amend the current provisional payments mechanism.** However, they requested the secretariat to provide member organizations with a summary of the outstanding cases no later than the second week of September 2018. The secretariat agreed to provide the requested information.

Chapter XI
Audit

A. Report of the Audit Committee

270. The Chair of the Audit Committee introduced the twelfth report of the Committee. The current membership of the Audit Committee is set out in annex XV. The Chair informed the Board that, during its meetings, the Committee had held comprehensive and candid discussions with the Fund's internal auditors (OIOS), the Deputy Chief Executive Officer of the Fund, the Representative of the Secretary-General for the investment of the assets of the Fund, the Chief Financial Officer of the Fund and other management representatives, and the external auditors (United Nations Board of Auditors). On behalf of the Committee, the Chair thanked both the internal and the external auditors as well as the Representative of the Secretary-General and the Deputy Chief Executive Officer and their respective teams for their excellent support and cooperation.

271. The Chair noted that the Committee saw the Pension Fund as being at a turning point, presenting both risks and opportunities. While a new Representative of the Secretary-General had been appointed last year, the prolonged absence of the Chief Executive Officer and the imminent departure of the Deputy Chief Executive Officer meant that a full leadership team was not in place, at the very moment when the Fund was faced with a variety of far-reaching recommendations from a governance audit that might have a significant impact on future management and governance. The Chair stressed that the Fund was well funded and in a stable financial and operational position. Progress had been made in reducing the outstanding caseload and decreasing processing times. In addition, ICT system improvements were moving forward. The Chair noted that, while most of the Committee's recommendations from last year had been implemented or worked on, some areas required continued attention.

272. With respect to internal audit, the Chair reported that the OIOS risk-based workplan for 2018 had been developed in 2017 but not finalized, pending consultations with the Fund management. Consequently, the Committee had not endorsed the plan, as required under its terms of reference. In March 2018, the Committee was informed that OIOS had postponed or rescheduled several of its risk-based audits. The Committee viewed the postponements as an additional risk to the Fund.

273. With respect to the governance audit, the Committee regretted that the time frame established by OIOS did not allow for the auditors to observe the Board's annual meeting, which was the central act of the Fund's governance. The Chair of the Board had asked the Audit Committee to provide comments and views for the Board's consideration, which were provided in annex II to the Committee's report. The Committee had also discussed in greater detail with OIOS the portion of the audit related to the Audit Committee. While OIOS had reported conflicts of interests relating to several Committee members, the Committee had provided evidence of deliberate actions taken to mitigate such conflicts. The Committee accepted the OIOS recommendation that the Committee strengthen its membership criteria and independence.

274. The Chair of the Committee recalled that OIOS had, some time ago, informed the Committee about changes needed in the Fund's internal audit charter related to provisions of General Assembly resolutions and revisions to the internal audit standards. Last year, the Committee had recommended that the Fund management and OIOS collaborate on needed changes. No agreement had been reached to date but consultations were ongoing.

275. With respect to external audit, the Committee thanked the members of the Board of Auditors (the Indian Audit and Accounts Service) for their work and welcomed the members of the Board who would conduct the next annual audit (the Office of the Comptroller General of Chile).

276. The Committee had reviewed the Fund's unaudited financial statements for 2017 and commended the secretariat of the Fund and the Office of Investment Management for their commitment to working together, producing once again financial statements with an unqualified audit opinion. The Chair noted that the statements included a change in the presentation of foreign exchange gains/losses, including more detailed disclosure in the notes to related income/expense categories. He also noted that, since the 2013 issuance of the Fund's first statement of financial control, its scope had steadily been expanded.

277. Following the Board's approval of the Fund's Financial Rules in 2016, FAFICS had proposed amendments to section D (Banking, custody and investment of assets of the Fund) of the Rules. The Chair of the Audit Committee informed the Board that the Committee had reviewed the proposal and discussed it with the new Representative of the Secretary-General. The Committee recommended no change in section D at this time. In March 2018, the Committee had considered an amendment to rule H.1 of the Rules to align it with the provisions of General Assembly resolution 71/265 regarding the role of OIOS as internal auditor. Consultations on the proposal, which had been submitted by the United Nations Staff Pension Committee, were continuing; no change was recommended at this time.

278. For several years, the Committee had expressed serious concerns about the ICT systems and framework in the Office of Investment Management. The Committee noted that, although much more work would be needed to finalize its strategy and implementation plan, the Office had achieved greater clarity in its approach and was negotiating a contract to develop its target operating model.

279. The Chair said that the Committee had been informed that the Fund had engaged in a data review and clean-up exercise involving some 15,000 open entitlements workflows in the Integrated Pension Administration System that were non-actionable because they were missing key separation documents, such as payment instructions and separation notifications from member organizations. The Committee had also been informed that 55 per cent of the workflows had been voided, mostly due to re-employment of staff. The analysis had revealed that not all open workflows translate into a payment. For cases missing documents, listings had been sent to member organizations for action.

280. Following up on its concerns about benefit processing, the Committee had received regular updates on the topic. As validated by the Board of Auditors, the Fund had processed 62 per cent of cases within the prescribed limit of 15 business days, which was higher than the 27 per cent that had been achieved in 2016, but still short of the 75 per cent target that had been established by the Fund. The Fund had also strengthened its client services through a number of pilot initiatives, such as the call centre, a new website and member self-service.

281. The Chair informed the Board that Dennis Thatchaichawalit had been selected to succeed him as the Chair of the Audit Committee starting in November 2018.

Discussion in the Board

282. The Board expressed its appreciation for the work of the Committee and its report.

283. The representatives of the United Nations participants stated that the Audit Committee should provide periodic guidance and reports of its activities to the staff

pension committees and forward final audit reports and minutes of its meetings to the Board. The report did not include an analysis of the audits on procurement and the Integrated Pension Administration System post implementation or an analysis of the secretariat's decision not to accept certain recommendations. They also expressed concern about the need to brief their constituents and the limitations created by the confidentiality requirements in that regard. The Chair of the Audit Committee highlighted the importance of transparency. He responded that he would consult with the Committee concerning whether the minutes of Committee meetings could be regularly shared with Pension Board members. He also noted that transparency was provided through the publishing by OIOS of all its final audit reports, and added that OIOS reported annually directly to the Board. Regarding the ability of Committee members to report back to their constituents, he agreed that they should be able to do so. However, the Chair was concerned about confidential drafts being disseminated and conclusions made on the basis of documents shared through non-official channels.

284. With regard to a question about the cost of the governance audit, the Chair of the Audit Committee clarified that the Fund was paying OIOS about $2 million per biennium, independent of the number of audits produced this year. OIOS had postponed several audits from its risk-based workplan. Also, on the issue of OIOS budget, he noted his concern that OIOS had included reimbursement for office space in an office building in its last budget request, while the Committee had repeatedly suggested that OIOS use the office space at the Fund, which would be the norm for internal audit.

285. The executive heads noted that the Audit Committee was an important part of the Fund's governance. They commented that it would be useful in future reports to have more information about management's reasons for not agreeing to audit recommendations. This comment was echoed by the representatives of the United Nations participants. The executive heads also proposed that at future Board meetings the agenda item on the report of the Audit Committee be scheduled so that it takes place before the Board takes up the reports of the Board of Auditors and OIOS.

286. The Chair of the Audit Committee noted that it was up to management to decide whether to accept audit recommendations or not, and added that the minutes included some discussion of this topic. He stated that in some cases the rejected recommendations seemed to be indicative of a former deteriorated relationship between OIOS and management and a disconnect in the audit process and related dialogue. He noted that more discussion was needed which could lead to an agreement on what constituted a reasonable, helpful audit recommendation. The Chair gave credit to the Deputy Chief Executive Officer and the Representative of the Secretary-General for their positive attitudes on this issue.

287. On the OIOS proposal to replace the audit charter with terms of reference, a representative of the governing bodies stated that it was the role of the Audit Committee to propose changes to the audit charter, and that OIOS should comply with the charter. The Chair of the Audit Committee stated that he believed the Fund needed an audit charter. He recalled that when the Audit Committee was established, OIOS had suggested changing the charter to include a provision to the effect that the Committee is to approve the internal audit workplan.

288. The representative of the governing bodies also asked about the difference between external audit and internal audit. In response, the Chair of the Committee noted that it appeared that OIOS was neither internal nor external audit, but rather a hybrid, given the fact that it reported to the General Assembly and made its reports public. In his opinion, the governance of the Fund could be strengthened through the provision by OIOS of true internal audit services. He added that this had been the

biggest concern over his term. The Chair commented that the Committee self-evaluation showed that more needed to be done in terms of systematic evaluation of the effectiveness of OIOS. A representative of FAFICS supported the idea of a more systematic review of the efficiency of internal auditors.

289. The Chair of the Assets and Liabilities Monitoring Committee suggested that the Committee include in its future reports information on completed audits, including their analysis. She supported the proposal to present the Audit Committee report first, before the presentation from internal and external auditors.

290. On a request for clarification about the proposed change in financial rule H.1 from a member of the United Nations Staff Pension Committee, the Chair of the Audit Committee responded that the Audit Committee had approved the change proposed by the United Nations Staff Pension Committee. However, OIOS had informed the Audit Committee that this was not their only problem with the language of the provision. Accordingly, the matter required additional consultations.

291. **The Board expressed its appreciation for the Committee's report and requested that the minutes of the meetings be annexed to it. The Board endorsed the Audit Committee's recommendations that:**

(a) **OIOS, as a matter of priority, resume work to complete its 2018 annual audit plan;**

(b) **The Pension Board accept the OIOS governance audit recommendation relating to the Audit Committee;**

(c) **The Pension Board take all necessary steps to fill the current leadership void and ensure that more effective succession planning is undertaken in the future;**

(d) **Management continue working towards meeting the 15-day target for benefit processing.**

292. **The Board approved the recommendation of the Audit Committee to appoint Marian McMahon as an expert member of the Committee to serve for the period from 1 August 2018 to 31 July 2022.**

293. **The Board thanked the members of the Audit Committee for their professional service and dedication.**

B. Membership of the Audit Committee

294. The members of the Audit Committee are appointed by the Pension Board. They serve for four years. All members of the Committee must be independent and knowledgeable in accounting, auditing, financial management or compliance and have long-established exposure to and demonstrated expertise in those fields.

295. The Board was informed that the terms of two of its members (Tom Repasch and Rahul Bhalla, representing the governing bodies group and the executive heads group, respectively) were expiring on 31 December 2018. The Board was also informed that the term of one of the current expert members (Aline Vienneau) was expiring in July 2018.

296. **The Board endorsed the nominations of Lovemore Mazemo (representing the governing bodies group) and Adnan Chughtai (representing the executive heads group) as new members of the Audit Committee to serve from 1 January 2019 to 31 December 2022. A resumé for each new member was circulated to the members of the Board. Upon the recommendation of the Audit Committee, the**

Board approved the appointment of Marian McMahon as an expert member of the Audit Committee to serve for the period from 1 August 2018 to 31 July 2022.

297. **The Board expressed its appreciation to the Chairman and the outgoing members for their long-standing service as well as their commitment and contribution to the work of the Committee.**

C. External audit

298. The Director of External Audit, India, introduced the report of the Board of Auditors on the audit of the Fund, which had been approved by the Board of Auditors at its annual session in 2018.

299. The Board was informed that the Board of Auditors had issued an unqualified opinion on the financial statements of the Fund for the year ended 31 December 2017. The Board of Auditors reported that, while there were no material deficiencies in the financial statements, it had suggested some improvements in the disclosures in the notes to the financial statements.

300. On the key findings, the Board of Auditors recommended that the Fund take proactive steps in collaboration with member organizations to expedite the receipt of the documents required for benefit processing; address some system deficiencies in the Integrated Pension Administration System; streamline the certificate of entitlement process; and enhance the client grievance management system. The Board of Auditors also recognized progress in the implementation of audit recommendations. It reported that, of 41 open audit recommendations, the Fund had fully implemented 20 recommendations, 19 recommendations were under implementation and 2 had not been implemented.

301. With regard to benefit processing, the Board of Auditors observed that the Fund had processed 9,588 cases in 2017, that is, 703 cases less than in 2016, and that this was a reflection of the reduction in the backlog. During 2017, the Fund processed 62 per cent of cases within 15 business days, which was significantly higher than the 27 per cent processed in 2016, but still below the target of 75 per cent.

302. The Board of Auditors observed that issues with regard to the Integrated Pension Administration System indicated the need for an independent examination of the System. With respect to cases that were not actionable owing to non-receipt of documents, the Board of Auditors indicated that, as highlighted in its previous reports, the member organizations and the Fund needed to improve coordination to ensure timely submission of the information and documents required for benefit processing.

303. The Board of Auditors made an observation regarding the number of cases of suspended benefits and noted that the procedures followed for obtaining certificates of entitlement were cumbersome for the Fund and for beneficiaries located all over the world.

304. In relation to the Fund's investments, the Board of Auditors identified the need to strengthen risk management and the management of foreign currency exposure and to improve the planning and execution of critical software implementations such as the trade order management system.

305. The Pension Board was informed that foreign currency fluctuations had resulted in gains for the Fund during 2017, while there had been foreign exchange losses from 2013 to 2016. It was noted that in order to address previous recommendations by the Board of Auditors related to foreign currency losses, the Fund had conducted a currency study in 2017, which recommended that the Fund reduce its currency exposure relative to liabilities and assess the currency composition of the liabilities

in the next asset-liability management study. The Board of Auditors observed the need to have specific guidelines on the currency exposure for each asset class vis-à-vis the respective benchmarks.

306. The representative of the Board of Auditors reported that the Office of Investment Management had adopted Bloomberg Asset and Investment Manager in 2015 following a non-competitive process. It was noted that the contract for Bloomberg Asset and Investment Manager was a stop-gap arrangement ending in July 2018 and subject to a comprehensive assessment of the award of a contract for the system. The Board of Auditors noted that a consultant to conduct the comprehensive assessment had been hired in June 2017 and that no request for proposal had been initiated for the contract for a new target operating model system. Meanwhile, it had been proposed that the contract for Bloomberg Asset and Investment Manager be further extended, and it could be in force until July 2022. The Board of Auditors observed that the new system might not get implemented before the contract for Bloomberg Asset and Investment Manager ended and concluded that the acquisition of this critical system had not been properly planned.

307. Finally, the Board was informed that, in accordance with the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat, the Office of Investment Management needed to conduct a fraud risk assessment. The representative of the Board of Auditors observed that the fraud risk assessment was important given the substantial amount of assets managed by the Office.

Discussion in the Board

308. The Board thanked the Board of Auditors (the Indian Audit and Accounts Service) for its report and for its professional service for the past four years. The Board particularly welcomed the clean audit opinion on the Fund's financial statements for the year ended 31 December 2017.

309. In response to a question on the accounting treatment applied by the Fund for withholding tax, particularly with regard to non-recoverable amounts, the Board of Auditors confirmed that it was satisfied with the process adopted by the Fund in classifying tax receivables.

310. When asked about the possibility of conducting an audit of Northern Trust, as the Fund's global custodian and independent master record keeper, the Board of Auditors confirmed that a periodic examination of the custodian records would be aligned with prudent financial management and would help management to have better information and take timely action. The Board of Auditors noted that an audit of Northern Trust would need to be discussed between management and the Board of Auditors.

311. FAFICS requested information on the review by the Board of Auditors of separation cases that took a year or more to process. The representative of the Board of Auditors indicated that the Board had conducted a detailed examination of all of the cases processed and the actions taken by the Fund to minimize delays in benefit processing.

312. Some Pension Board members commended the increase in the percentage of cases processed within 15 days and others requested additional information. The representative of the Board of Auditors indicated that the Fund had systems and processes in place to address possible delays. He stressed that benefit processing had gradually improved during the last few years and showed a significant improvement in 2017 in reaching 62 per cent of cases processed within 15 business days.

313. With regard to delays in the submission of separation documents to the Fund,

with member organizations. He added that the implementation of previous recommendations on this topic had resulted in an increase in the percentage of cases processed within 15 business days and that the Fund could even surpass the current target with additional monitoring and coordination between the Fund and member organizations.

314. A representative of the United Nations participants noted that the Fund needed to conduct further follow-up on cases with missing documents and upload salary scales to the Integrated Pension Administration System in order to process cases faster. The secretariat of the Fund clarified that outstanding cases included cases of beneficiaries who were not waiting for payment, such as cases of deferred benefits or cases related to re-employed staff.

315. Other Board members noted that the report of the Board of Auditors indicated that the increase in the market value of the Fund's investments in 2017 was the result of strong equity markets and the weakness of the dollar, and asked whether the Board of Auditors had reviewed the foreign currency study and percentage of investments in foreign currencies. The Board of Auditors replied that it had not commented on the currency exposure, but on the need to manage currency risks and the need to have specific guidelines for the foreign currency exposure in each asset class.

316. In response to questions related to the annexes to the financial statements, the Board of Auditors confirmed that it had reviewed the number of participants and beneficiaries presented in the annexes to the financial statements and in the census data for the actuarial valuation as at 31 December 2017. The Chief Financial Officer of the Fund explained that the number of participants and benefits presented in the financial statements had been reconciled with the actuarial valuation report. Annex D to the actuarial report presented the reconciliation.

317. The Board welcomed the Office of the Comptroller General of Chile as the new lead auditor for the Fund. The Board asked about the handover procedures, particularly with regard to the follow-up of open audit recommendations. The representative of the Board of Auditors explained that draft audit reports were approved by all three member auditors of the Board of Auditors. He added the Board of Auditors had already completed a full detailed handover process with the Office of the Comptroller General of Chile, which would follow up on the implementation of previous audit recommendations.

318. The Chair of the Audit Committee thanked the Board of Auditors team for several years of productive and effective audit engagements with the Fund. He noted that the Board expected to maintain an effective and harmonious working relationship with the Office of the Comptroller General of Chile.

319. The Deputy Chief Executive Officer thanked the members of the Board of Auditors for their professional work. He further thanked them for acknowledging significant improvements in the percentage of benefits processed within 15 business days. He added that the Fund expected, with the resources approved by the Board, to meet the target of 75 per cent of cases processed within 15 business days, to continue to follow up with member organizations on cases with missing documents and to implement open audit recommendations.

320. The executive heads thanked the members of the Board of Auditors for their work and their openness to discussing issues and working with management to find solutions. The executive heads welcomed the report on the implementation of the recommendations of the Board of Auditors, which showed good progress in areas of interest to the Board, including risk management, information technology and client services.

321. The Representative of the Secretary-General thanked the Board of Auditors for identifying and proposing solutions in important areas for the Fund. He noted that the Office of Investment Management was working on addressing audit recommendations, including those related to foreign currency exposure, and would update the investment policy statement to include, among other aspects, additional guidelines for foreign currency exposure.

322. **The Board took note of the report of the Board of Auditors. The Board thanked the Board of Auditors (the Indian Audit and Accounts Service) for its service to the Fund and appreciated the fact that the final external audit report had been considered for the first time during the session of the Pension Board.**

D. Office of Internal Oversight Services

323. The Director of the Internal Audit Division presented the report on the activities of OIOS for the year ended 30 June 2018.

324. OIOS reported that it had issued three audit reports during the year: the audit of the Integrated Pension Administration System post implementation, the audit of procurement and contract management in the secretariat of the Fund and the audit of procurement and contract management in the Office of Investment Management. The Board noted that the audit reports included 21 important audit recommendations, of which the Fund's management had accepted 15. The Board was informed that three audits were ongoing as at 30 June 2018, including the audit of ICT services provided by the United Nations International Computing Centre to the Office of Investment Management, the audit of the Pension Board governance structure and related processes and the audit of the certificate of entitlements process in the secretariat of the Fund.

325. With respect to the implementation of audit recommendations, the Board was informed that OIOS interacted positively with the Fund secretariat and the Office of Investment Management and that several audit recommendations had been closed during the year.

326. OIOS informed the Board that it had had discussions with the Audit Committee and the management of the Fund on the draft terms of reference for the provision of audit services by OIOS to the Fund. OIOS explained that the draft terms of reference were intended to replace the Fund's internal audit charter, which OIOS considered superseded by General Assembly resolutions relating to the work of OIOS. Furthermore, OIOS considered it inconsistent with the International Standards for the Professional Practice of Internal Auditing. The Board was informed that OIOS would continue to meet with the management of the Fund to finalize the draft terms of reference as soon as possible.

327. OIOS reported that there were no restrictions on the scope of internal auditing during the reporting period.

328. OIOS concluded the presentation by assuring the Board of its commitment to providing timely, effective and independent oversight services to the Fund.

Discussion in the Board

329. A member of the governing bodies requested OIOS to explain the process followed in developing its risk assessment and audit plan, as well as the changes it had made to its audit plan in order to work on the audit of the Pension Board governance structure. OIOS explained that it needed to reprioritize the audit plan and that some audits were paused or delayed in the light of the resources available and until the completion of the audit of the Pension Board governance structure and

related processes. OIOS explained that the audits planned for 2018 would be conducted later.

330. The Board asked about concerns reported by OIOS regarding inaccuracies in financial rule H.1. OIOS explained that it was seeking to align financial rule H.1 with General Assembly resolution 71/265, in which the Assembly emphasized that OIOS remained the sole oversight body of the Fund and that any change in that regard was the sole prerogative of the Assembly.

331. A member of the governing bodies underlined that the United Nations was only one member organization of the Pension Fund and that any other member organization could have asked OIOS to conduct another audit of the Fund. He added that OIOS was hired by the Fund and not by the General Assembly, and that, although OIOS auditors worked for the Assembly, they should comply with the rules of the Fund and not solely with the rules of the Assembly. He explained that the Fund reported to the Assembly and that the Pension Board established the rules and implemented and interpreted them. He objected to the proposal by OIOS to replace the internal audit charter with new terms of reference, and noted that the charter had to be updated.

332. In response to a question about the difference between internal and external auditors, OIOS indicated that external auditors review the financial statements, while internal auditors examine the governance, risk management and control processes in an organization.

333. A representative of the United Nations participants commented that the OIOS report included a summary of the audits conducted but did not attach individual reports. He enquired if best practices required audit reports to be shared with the Board. He requested OIOS to explain the risks and implications of the unaccepted audit recommendations. OIOS indicated that final audit reports were publicly available and provided detailed information on the audit recommendations that had not been accepted by management. The Board was informed that OIOS reports included information on any unmitigated risks related to unaccepted recommendations.

334. FAFICS noted that the number of unaccepted recommendations might be indicative of the need for additional dialogue between auditors and auditees. It was noted that it was not normal practice to finalize audit reports with unaccepted recommendations and that additional discussions might be needed to identify recommendations that were acceptable to both parties and achieve the full value of the audits. OIOS agreed on the need to do more work with the Fund to minimize unaccepted recommendations and follow up on the implementation of open audit recommendations.

335. The Chair of the Audit Committee recalled that last year the Committee had called the attention of the Board to the number of unaccepted audit recommendations and suggested that management and auditors work together to resolve possible differences. A member of the Audit Committee commented that those issues had been discussed at length at the Committee meetings. She noted that she had been unable to provide feedback to the participants as she had signed a confidentiality document. She stated that there was a need to clarify which information was confidential and which was not.

336. Several Board members requested OIOS to provide clarification concerning the criteria used to distribute audit questionnaires and plan interviews for the OIOS audit of the Pension Board governance structure, as it appeared some specialized agencies had not received the questionnaire or had not been not interviewed. OIOS reported that the questionnaires and interviews covered all Board members and alternates who attended the 2017 session of the Board. In the light of possible discrepancies, OIOS

agreed to review the list of interviews and questionnaires distributed, to provide additional explanations.

337. A member of the Board expressed concern that the reports on the three internal audits carried out during the year had not been distributed to the Board, as required in financial rule H.2. He was also concerned about overspending on the procurement of consulting services and the significant cost overruns. Furthermore, he was concerned that the Integrated Pension Administration System had been implemented when it was not ready and that the recommendations of the internal auditors had been discarded, including a recommendation to provide the full cost of the Integrated Pension Administration System to the Board.

338. **The Pension Board appreciated and took note of the report of OIOS for the year ended 30 June 2018.**

E. Office of Internal Oversight Services audit of the governance structure of the Board

339. The General Assembly, in its resolution 72/262 A, requested the Secretary-General to entrust OIOS with the conduct of a comprehensive audit of the governance structure of the Pension Board, including a review of the checks and balances between the Board and the leadership of the Fund, and requested OIOS to submit a report with key findings to the Assembly at its seventy-third session, to be considered in the context of the United Nations Joint Staff Pension Fund.

340. Although invited on numerous occasions prior to and during the session of the Board to attend in person and to observe the Board's sessions, OIOS declined and instead presented the audit report via videoconference. The Board members asked a number of questions about the scope and methodology for the audit and the criteria or benchmarks used to evaluate the governance of the Board and whether OIOS was satisfied that they had done a professional job. A large majority of the members of the Board considered that OIOS had not engaged in proper dialogue with the auditee. Several members of the Board expressed their disappointment that OIOS had not observed the Board's session or come in person to the session to answer questions and provide additional information and clarification. Board members asked about the basis for selecting interviewees, and a number of secretaries of staff pension committees, as well as FAFICS, noted that they had not received the audit questionnaire. OIOS clarified that audit questionnaires had only been distributed to Board members and alternates. The Board questioned the timing of the final report and sought clarity on the process of including the auditee's comments in the final audit report, as required by internal audit standards.

341. A representative of the United Nations participants congratulated OIOS on a job well done and noted that there were numerous footnotes to the OIOS report.

342. During the audit process, a number of representatives and staff pension committees of member organizations and FAFICS submitted their comments and reactions to OIOS and the Board. Those statements are reproduced in annex XVII to the present report. FAFICS made a statement to the Board, which is also reproduced in annex XVII.

343. In view of what was seen by the great majority of members as a flawed audit process, which some members considered did not follow accepted practice and the International Standards for the Professional Practice of Internal Auditing or the internal audit charter of the Fund, **the Board decided to submit the audit report to**

consideration. The representatives of the United Nations participants did not support the decision.

344. **Notwithstanding the foregoing, the Board decided to consider the OIOS draft audit report. The Board's conclusions, responses and reactions are reflected in paragraphs 345 to 352 below and table 8.**

345. The Board took note of and had an initial discussion on the draft report of OIOS on the audit of the governance structure and related processes of the Board of 17 July 2018. The great majority of Board members expressed serious concern regarding the process by which OIOS had conducted the audit, which many viewed as having been flawed and unprofessional. The great majority of members commented that the audit had not been based on fully verified facts and that reasonable professional care had not been taken to obtain sufficient and factual evidence to support the conclusions drawn and recommendations made.

346. In the view of the representatives of the United Nations participants, the audit was well researched and drafted, properly conducted, of a professional standard and based on verified facts.

347. It was noted by a number of members that the rules and regulations of the Fund had not been adequately cited or taken into account in the draft report and its recommendations. In addition, the view was expressed that the draft report did not follow the International Standards for the Professional Practice of Internal Auditing, in particular standard 1220.A1, which requires internal auditors to exercise due professional care by considering the extent of work required to achieve the audit objective, given that OIOS did not observe the session of the Board, which is its central act of governance. It was also observed that OIOS had largely failed to reflect the comments and views of all the member constituencies and organizations of the Board.

348. The representatives of the United Nations participants believed that the rules and regulations had been correctly referred to and that members and their constituencies had been provided opportunities to have their views considered at every stage of the process.

349. A number of Board members observed that the audit had been conducted in a very short time frame that was not commensurate with the importance of the various governance issues it was examining. They underscored that they had been given a very limited amount of time for thorough consideration of the draft report's far-reaching recommendations.

350. The representatives of the United Nations participants stated that the time frame for the audit had been adequate and that Board members had been given the necessary time.

351. The Board takes its responsibility seriously and strongly believes that governance issues are of great importance and that their consideration is a common interest and concern of all Board members, as a means to contribute to improving efficiency and decision-making processes and enhancing the credibility of the Board for the benefit of the participants, constituencies and beneficiaries of the Fund.

352. **In table 8, the Board offers responses to the OIOS recommendations and requests that they be incorporated into the final report of OIOS to the General Assembly.** In accordance with the prevailing practice, the Board will follow up on the accepted recommendations.

Table 8

Responses by the Pension Board to the recommendations of the Office of Internal Oversight Services in its audit of the governance structure of the Board

OIOS recommendation	*Board response*
1. The Board should:	
(a) Establish clear terms of reference for its members outlining, inter alia, the desirable competencies for their appointment and any appropriate restrictions or limitations;	(a) The Board does not accept the recommendation. The membership of the Board is determined in accordance with the Regulations and rules of procedure. However, the procedures currently followed by constituent groups could be strengthened to ensure that their representatives fulfil their fiduciary and other responsibilities.
(b) Review its current methodology for self-evaluation to make the exercise more effective and useful.	(b) The Board accepts the recommendation.
2. The Board should:	
(a) Implement the General Assembly's request to submit proposals for fair and equitable representation of member organizations on the Board to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation and the changing nature of the Fund's member organizations;	The Board, with the exception of the representatives of the United Nations participants, does not accept the recommendation as currently formulated and will establish a working group to consider issues of participation, rotation and fair and equitable representation without any presumption of outcome and taking into account the Board's previous review on this matter.
(b) Implement a rotation scheme that allows eligible member organizations to share the rotating seats in a fair and equitable manner.	
3. The Board should determine the number of seats to be allotted to retiree representatives and facilitate their direct election as full Board members with voting rights to ensure transparent and democratic representation of beneficiaries and their interests.	The Board, with the exception of the representatives of the United Nations participants, does not accept the recommendation because this would undermine the tripartite nature of the Board and because retirees are not affiliated with member organizations.
4. The Board should establish appropriate mechanisms to avoid conflicts of interest between representatives of FAFICS and the management of the Fund.	The Board will establish appropriate mechanisms to avoid conflicts of interest between the management of the Fund and the constituent groups of the Board.
5. The Board should strengthen its governance of the Fund by:	The Board takes note of this recommendation and wishes to point out that section B of the rules of procedure defines the role of the Standing Committee, and that the possibility of increased frequency of meetings, as necessary or when requested by the Board, is already foreseen in rule B.4, which states:
(a) Increasing the frequency of meetings of the Standing Committee to provide more effective oversight of the Fund's operations;	
(b) Entrusting the Standing Committee to act on the Board's behalf during periods when the Board is not in session;	"The Standing Committee shall act, when necessary, on behalf of the Board when the Board is not in session. It shall decide individual cases referred to it,

OIOS recommendation	*Board response*
(c) Requiring the Board's other committees and the secretariat of the Fund to periodically submit their reports to the Standing Committee for better oversight and to reduce the burden on the Board's annual sessions.	exercise a general control on the operations of the Fund and perform such additional specific functions as may from time to time be assigned to it by the Board. The Standing Committee may on its own initiative and shall at the request of the Board or of any staff pension committee initiate preparatory work on any policy questions to the end that such questions be effectively considered by the Board."
6. The Board should retire its Assets and Liabilities Monitoring Committee and reinforce the interaction between the Committee of Actuaries and the Investments Committee to safeguard the Fund's long-term solvency.	The Board, with the exception of the representatives of the United Nations participants, does not accept the recommendation and decides to retain the Assets and Liabilities Monitoring Committee to satisfy the purposes and objectives outlined in section 1, paragraph 2, of its terms of reference, which states: "In order to assist the Board of the [Fund] in carrying out its responsibility for the overall management of the Fund, the [Assets and Liability Monitoring] Committee will work with the support of the Fund's management, the Investments Committee, the Committee of Actuaries and the Consulting Actuary to monitor the solvency of the Fund and to provide advice and recommendations to the Board with regard to risk management, funding policy, asset-liability management and investment policy."
7. The Board should, in consultation with its Audit Committee, strengthen the criteria for the Committee's membership, its independence and its means to hold the management of the Fund accountable for the accuracy and completeness of the information presented to it.	The Board accepts the recommendation.
8. The Board should:	
(a) Separate the roles of its Secretary and the Fund's Chief Executive Officer;	(a) and (b) The Board, with the exception of the representatives of the United Nations participants, does not accept the recommendation. The Board will establish mechanisms for ensuring proper segregation of roles, such as the setting of the Pension Board agenda.
(b) Establish its own secretariat that is independent from the management of the Fund;	
(c) Reconstitute the Executive Office such that it is directly responsible to both entities of the Fund for the provision of administrative services.	(c) The Board accepts this recommendation and will request the management of the Fund to resolve this issue as a matter of priority.
9. The Board should:	
(a) Establish mechanisms to ensure that annual performance evaluations of the Chief Executive Officer and the Deputy Chief Executive Officer are conducted and documented based on clear metrics to hold them accountable;	The Board accepts the recommendation.
(b) Ensure that the secretariat of the Fund is held accountable for annually appraising the performance of its staff.	

OIOS recommendation	Board response
10. The Board should take effective measures to ensure that the secretariat of the Fund sets the appropriate tone at the top with regard to integrity and ethical values.	The Board accepts the recommendation.
11. The Board should: (a) Determine the appropriateness of the distribution of resources between programme and support functions; (b) Strengthen monitoring to ensure that the secretariat of the Fund utilizes resources in accordance with legislative decisions.	The Board accepts the recommendation by noting that it relates to a long-standing practice of the Board. The Board will continue that practice and perform its functions in monitoring the use and distribution of resources as a matter of priority.
12. The Board should assess the composition and procedures of the search panel for the Deputy Chief Executive Officer in the light of the deviations in and apparent arbitrariness of the process and determine whether the search should be restarted to ensure integrity and fairness in a competitive exercise.	The Board does not accept this recommendation as currently formulated. The Board assessed the composition and the procedures of the search panel, which were formulated during the intersessional period, considered them to be appropriate and therefore proceeded with the recommendation to the Secretary-General for the selection of the Deputy Chief Executive Officer. The Board will reflect on the lessons learned for future search panels.
13. The Board should ensure proper succession planning for the positions of Chief Executive Officer and Deputy Chief Executive Officer to allow adequate time for their competitive selection based on pre-established procedures.	The Board accepts the recommendation.

353. The Board established a working group to consider the issues of participation, rotation and equitable representation on the Board, without any presumption of outcome and taking into account the Board's previous review of this matter.

354. The Deputy Chief Executive Officer informed the Board that the secretariat of the Fund had factual clarifications to the audit report. **The Board agreed to consider those comments in the context of the implementation of the accepted audit recommendations.**

355. The following items related to the governance audit were referred to the working group:

(a) The terms of reference of officers of the Board;

(b) The composition of the Board;

(c) Reform of the representation of participants and member organizations and allocation of seats on the Pension Board;

(d) Establishment of an independent election commission for election of representatives of participants to staff pension committees;

(e) The meetings of the Standing Committee;

(f) The establishment of an ethics committee;

(g) The establishment of a mechanism for a staff representative body of the Pension Fund to present to the Pension Board.

Chapter XII
Governance matters

A. Report of the Assets and Liabilities Monitoring Committee

356. The Chair of the Assets and Liabilities Monitoring Committee introduced the fifth report of the Committee. She reported that, since the last session of the Pension Board, the Committee had focused on strengthening the mechanisms to monitor the solvency of the Fund and the review cycle; monitoring the Fund's investments; and reviewing other factors impacting the Fund.

357. The Assets and Liabilities Monitoring Committee reported that the results of the Fund's actuarial valuation as at 31 December 2017 had confirmed that the Fund continued to be well-funded. The Committee highlighted the fact that, since 2003 the actuarial valuation, results had remained within the corridor of 2 per cent of pensionable remuneration approved by the Board. It was noted that the required contribution rate had increased by 0.21 per cent of pensionable remuneration, mainly as the result of the adoption of the new mortality tables, lower-than-expected inflation in 2016 and 2017 and improved investment performance in 2017.

358. Although, as at 31 December 2017, there were no high-risk factors impacting the funded status, the Assets and Liabilities Monitoring Committee called the attention of the Board to two moderate risk factors: (a) the real rate of return as the most critical factor for long-term solvency; and (b) trends in increased life expectancy. With respect to those factors, the Committee observed that the increased dependence on investment income necessitated closer monitoring of expected contributions and investment performance. The Committee also reported that it would review the methodology and impact of interim adjustments to mitigate deviations from predicted mortality.

359. The Board noted that the Assets and Liabilities Monitoring Committee had reviewed and provided comments on the statement of work for the fourth asset-liability management study, to be conducted in 2019. The Committee remarked that the study was the basis for defining the Fund's long-term investment strategy, which was the key determinant for long-term investment returns. In that light, the Committee would, during the next year, review the methodology, assumptions and preliminary study results and make recommendations to the Board in relation to the final study results.

360. The Committee welcomed the increase in investment return in 2017, which exceeded the policy benchmark and was above the required 3.5 per cent long-term real rate of return. It was noted that, despite significant market fluctuations, the Fund had achieved a nominal investment return of 0.19 per cent during the first quarter of 2018. The Committee recognized that expected movements in interest rates might lead the Investments Committee to review the asset allocation in the future. The Committee observed that the Fund was exposed to likely downturns in the business cycle and market risks resulting from the allocation to equity and investments in foreign currencies, and suggested that the Office of Investment Management continue to strengthen the management of related risks in order to avoid uncompensated exposure.

361. As mandated by the Board at its sixty-fourth session, the Committee reported on the implementation of the recommendations of the independent review of the investment management of the Fund conducted in 2017, which provided useful recommendations to enhance investment management. The Committee welcomed the progress reported by the Office of Investment Management in addressing the gaps identified between the practices of the Fund and best practices in investment

management in peer pension funds. As of June 2018, 14 of the 25 recommendations had been implemented and the other 11 recommendations were under implementation or to be implemented.

362. The Committee was appreciative of the efforts of the secretariat of the Fund to more efficiently process all types of benefits and introduce enhanced client-servicing mechanisms. The Committee suggested that the Fund continue working with member organizations to identify approaches to expedite the submission of separation documents to the Fund. The Committee expressed concern about the proposal to make provisional payments in cases in which the member organization or the participant had not completed separation processing, as this would not conform with the Regulations of the Fund, the fiduciary responsibilities of the Board and the responsibility of the Chief Executive Officer to certify benefit payments.

363. The Committee informed the Board that the ICSC proposal for changes to the scale of pensionable remuneration would have limited effects on the long-term funding and operations of the Fund. The Committee indicated that it would continue to monitor potential changes to the scale, as pensionable remuneration was an essential factor in the financial management and sustainability of the Fund.

364. With regard to the OIOS report on the audit of the Pension Board governance structure, the Committee recalled that the creation of the Committee was the result of extensive discussions on strengthening the role of the Board in the monitoring of the Fund's long-term sustainability and improving communications between management and the Board on investment policy. The Committee stressed that the bifurcated governance of the Fund necessitated effective communication and coordination between management and the Board. The Committee noted that for the Fund to be managed effectively, governance and monitoring responsibilities could not be delegated to management or independently undertaken by expert committees without the Board's participation.

365. The Committee remarked that the Board's fiduciary role covered the Fund's assets and liabilities. The Committee assisted the Board in carrying out its fiduciary responsibilities with regard to the Fund's long-term financial sustainability and providing the Secretary-General with suggestions on investment policy. It was noted that the Committee had been respectful of the Secretary-General's fiduciary responsibility for the management of investments.

366. The Committee disagreed with the OIOS comments about the composition and technical expertise of the members of the Committee and noted that the Board was fortunate to have members with knowledge and expertise in a large number of areas.

Discussion in the Board

367. The representatives of the United Nations participants thanked the Committee for its report and acknowledged that it had confirmed that the Fund remained well-funded. With regard to the provisional payments proposal, the representatives requested the Fund to provide additional information on the potential risks to, and operational impact on, the Fund. The Board agreed to discuss this topic further in the context of the report submitted by the representatives of the United Nations participants and the related response from the secretariat of the Fund.

368. A member of the Committee replied that the Committee had not infringed upon article 19 of the Regulations of the Fund, as it had never suggested or made specific decisions on investments. He added that the Pension Board had a fiduciary duty with regard to the Fund's assets and liabilities and offered observations and suggestions to the Secretary-General on investment policy. The Committee member further noted that comments regarding the expertise in the Committee were misguided and that no

additional experts were needed because members of the Committee of Actuaries and the Investments Committee participated in the meetings of the Committee. He concluded by noting that the Committee had proven useful in identifying and recommending actions to address factors that might have an impact on the sustainability of the Fund, as well as in improving communication with the Board, the Representative of the Secretary-General and the secretariat of the Fund.

369. The Representative of the Secretary-General expressed his commitment to working within the framework of article 19 of the Regulations of the Fund and the terms of reference for the Representative of the Secretary-General approved by the General Assembly in 2014. He added that his objective was to work effectively and harmoniously within the governance structure and maintain positive communications with the stakeholders of the Fund.

370. The executive heads welcomed the work and report of the Committee as important elements in ensuring the Fund's long-term sustainability. The executive heads supported the recommendation that the Board take note of the solvency monitoring report and the timeline for the upcoming asset-liability study as well as the subsequent monitoring by the Committee. It was further noted that the Committee's recommendation that the Office of Investment Management report on investment performance during 2018 and submit the report of the independent review to the General Assembly had been superseded by the information provided and the actions taken by Office of Investment Management to address the recommendations contained in the report of the independent review.

371. FAFICS recalled the conclusions and recommendations of the Working Group on Sustainability, which had recommended the creation of the Assets and Liabilities Monitoring Committee. FAFICS noted that the Committee was a useful element in the workings of the Pension Board. It was further noted that article 19 (a) of the Regulations of the Fund specified the Secretary-General's responsibility for investments but also indicated that the Board was to provide suggestions on investments policy from time to time, and that article 19 (b) provided that detailed accounts of all investments would be open to examination by the Board. It was recognized that to properly fulfil its responsibilities, the Board required full understanding and access to information regarding the Fund's investments.

372. A member of the Committee commented that the Committee had sent letters to the Secretary-General in the context of the lack of response of and ineffective communication with the former Representative of the Secretary-General. He added that, if accepted, the OIOS recommendation to retire the Committee would weaken the operation of and accountability to the Board, particularly with regard to investments.

373. The Chair of the Committee was pleased to note that the new Representative of the Secretary-General had implemented the recommendations made by the Committee. She also noted that to clarify its reporting the Committee could add a glossary to its report, but recognized that Board members should be familiar with key pension fund and investment management terms.

374. A member of the Committee of Actuaries confirmed that the Assets and Liabilities Monitoring Committee had continued to have productive meetings and to address the issue of improved coordination between assets and liabilities. He added that some comments and recommendations of OIOS were unduly weighted towards initial difficulties faced by the Assets and Liabilities Monitoring Committee. The representative of the Committee of Actuaries noted that it was common practice for pension funds to have Committees of the Board to review in more detail actuarial valuations and investment reports to facilitate decision-making on those topics.

375. **Following the discussions, the Board approved the report of the Assets and Liabilities Monitoring Committee and the recommendations therein, as follows:**

(a) **The Pension Board noted that, as at 31 December 2017, the solvency monitoring dashboard did not reflect any high-risk items;**

(b) **The Pension Board noted the status of the preparations and expected timeline for the fourth asset-liability management study to be conducted in 2019;**

(c) **In the light of significant fluctuations in investment performance in recent years and likely downturns in the business cycle, the Office of Investment Management should continue to strengthen the management of risks resulting from exposure to foreign currency and foreign-currency denominated equities to avoid uncompensated exposure;**

(d) **After a reasonable period, the Office of Investment Management might wish to repeat the assessment of its operations against investment management best practices;**

(e) **The Board agreed to reject the OIOS recommendation that it retire the Assets and Liabilities Monitoring Committee, as the recommendation ran counter to the long-standing objective of strengthening the Fund's governance and long-term sustainability, in that it would eliminate the Board's main integrated forum and mechanism for the monitoring of solvency risks, which was critical to the Board in its fulfilment of its fiduciary duty to the Fund's participants and beneficiaries. With regard to the OIOS recommendation that the interaction between the Committee of Actuaries and the Investments Committee be reinforced to safeguard the Fund's long-term solvency, the Board stressed that governance responsibilities relating to the monitoring of solvency could not be independently undertaken by expert committees without the participation of the Pension Board.**

376. The representatives of the United Nations participants did not agree with the recommendation that the Pension Board reject the OIOS recommendation to retire the Assets and Liabilities Monitoring Committee. In keeping with their position on the report of OIOS on its governance audit, they felt that, in its current form, the Assets and Liabilities Monitoring Committee was redundant, given the existence of the Committee of Actuaries and the Investments Committee.

B. Membership of the Assets and Liabilities Monitoring Committee

377. The Board considered a note by the Secretary/Chief Executive Officer on the membership of the Assets and Liabilities Monitoring Committee.

378. It was recalled that, at its sixty-fourth session, the Board had selected half of the Committee members who had been appointed when the Committee was established to serve for one additional year. In addition, in order to complete the membership of the Committee, the participants group had appointed one member to serve for a one-year term. Accordingly, the Board was informed that the terms of four members of the Committee would expire in July 2018.

379. In order to complete the membership of the Committee, and in line with its terms of reference, the Pension Board was requested to designate one member from each of the three groups of the Board to serve as members of the Committee for a four-year term.

380. FAFICS was also requested to appoint one member to the Committee for a four-year term.

Discussion in the Board

381. **The Board appointed the following members to the Assets and Liabilities Monitoring Committee for a four-year term:**

Member	*Group*	*Term*
P. R. O. Owade	Governing bodies	4 years
T. Panuccio	Executive heads	4 years
K. Bruchmann	Participants	4 years
W. Sach	FAFICS	4 years

382. **The Board thanked Valeria González-Posse and Jay Pozenel for their long-standing service and contributions to the Fund.**

C. Strategic framework of the Fund for the biennium 2016–2017: update on indicators

383. The Board took note of the update on the performance indicators for the biennium 2016–2017, which had been provided for information.

D. Self-evaluation survey of the Board

384. In 2010, the Board approved its first self-evaluation survey, in accordance with the recommendations of OIOS and the Audit Committee.

385. The Chair of the Board reported that the fifth survey of the Board was scheduled to be completed at the end of the session, with the results to be presented at the Board's sixty-sixth session, in 2019. He urged all members, alternates and representatives of FAFICS to fill out the survey so that 100 per cent participation could be achieved.

386. **The Board noted that the fifth self-evaluation survey would be available on the Pension Fund's website until 31 August 2018 and could also be completed in hard copy before the end of the Board session.**

E. Appointment of the Deputy Secretary/Deputy Chief Executive Officer

387. Following the sixty-fourth session of the Pension Board, the Deputy Chief Executive Officer informed the Chair of the Board that he was not seeking a second term. Accordingly, the Board set up a search panel to help identify a shortlist of candidates for the Board's consideration at its sixty-fifth session in July–August 2018.

388. The composition of the search panel included representatives of the three groups on the Board, as well as representation from the Fund's retirees. The search panel was composed of the following members:

V. Yossifov (WIPO) (Chair)	Governing bodies
P. R. O. Owade (General Assembly)	Governing bodies
A. Van Houtte (FAO)	Executive heads
M. H. Lopez (United Nations)	Executive heads
M. A. Pegorier (ITU)	Participants
B. Fitzgerald (WIPO)	Participants
L. Saputelli	FAFICS
M. Breschi	FAFICS

389. The Board considered the report of the search panel, which provided detailed information on the circulation of the job opening, the review carried out by the panel of the applications received, the interviews conducted and the process of evaluation of the candidates.

390. After the interviews and thorough discussions, the search panel unanimously agreed to recommend four candidates for the consideration of the Pension Board. The Panel concluded that all four candidates possessed, in varying degrees, the competencies required for the Deputy Chief Executive Officer post, each bringing a unique combination of strengths and experience. Each of the four candidates was invited to make a short presentation and respond to questions from the Board.

391. **After consideration of the approach and process followed, the Board decided to recommend by consensus to the Secretary-General, in accordance with article 7 (a) of the Regulations of the Fund, that Thibaud Beroud be appointed as Deputy Chief Executive Officer of the Fund and Deputy Secretary of the Board for a first term of five years. The Board thanked the search panel for its work.**

F. Appointment and terms of reference of the search committee for the Secretary/Chief Executive Officer

392. In closed session, the Board discussed a document on the appointment and terms of reference of the search committee for the Chief Executive Officer, which had been requested by the Board at its sixty-fourth session in the context of the renewal, at that time, of the term of appointment of the Chief Executive Officer for three years.

393. The Board decided that, instead of establishing such a committee, it preferred to establish the Succession Planning Committee, the purpose of which would be to assist the Board, on an ongoing basis, in selecting senior staff, in particular the Chief Executive Officer and the Deputy Chief Executive Officer, for recommendation to the Secretary-General for appointment; to develop evaluation methodologies for both positions; and to take a long-term strategic approach to succession planning in the senior executive levels of the Fund.

394. The members of the Committee, who were nominated by the respective constituent groups, are:

T. Repasch (General Assembly)	Governing bodies
A. Prempeh (IMO)	Governing bodies
M. H. Lopez (United Nations)	Executive heads
N. Jeffreys (WHO)	Executive heads

M. Abu Rakabeh (United Nations)	Participants
M.A. Pegorier (ITU)	Participants
W. Sach	FAFICS
M. Breschi	FAFICS

395. **Under the circumstances, the Board decided:**

(a) **To recommend to the Secretary-General the appointment of the current Deputy Chief Executive Officer as Acting Chief Executive Officer from 1 September to 31 December 2018;**

(b) **To request the newly formed Succession Planning Committee to identify, for recommendation to the Bureau and subsequent submission to the Secretary-General, a suitable individual for appointment as Acting Chief Executive Officer from 1 January 2019 for as long as required.**

396. The Board draws the attention of the Succession Planning Committee and the Secretary-General to the critical importance of avoiding any perception of conflict of interest in this process.

G. Representation of retirees on the Board

397. The representatives of the United Nations participants had prepared a note to the Board regarding the question of the representation of retirees at Board meetings (see annex XIX). FAFICS had prepared a note on the same subject (ibid.). Neither note was formally introduced, but the topic was taken up towards the end of the session.

398. The representatives of the United Nations participants expressed the view that the Fund's retirees should be represented on the Board and elected by a democratic process, in the same manner as representatives were elected by the General Assembly and other governing bodies and representatives were elected by participants of the various member organizations to their staff pension committees.

399. The representatives of the United Nations participants believed that their fiduciary duties extended to all current and future beneficiaries of the Fund. They held the position that those retirees who were permitted to attend meetings of the Board and its committees — albeit not in a voting capacity — should be elected through a democratic process whereby retirees were able to choose individuals they believed would act in their exclusive interest.

400. The note prepared by FAFICS provided substantial information on the background and history of FAFICS, from its creation to the present day.

401. The note addressed proposals made with regard to the representation of retirees on the Pension Board, the report of OIOS on the governance audit and the note by the representatives of the United Nations participants (see annex XIX).

402. FAFICS strongly rejected both the OIOS recommendations pertaining to FAFICS and the content of the note by the representatives of the United Nations participants. FAFICS stated that it considered that both had exceeded their respective mandates by attempting to interfere in the internal working arrangements of an autonomous body and that it considered the claim of the representatives of the United Nations participants that their fiduciary duties extended to all future beneficiaries of the Fund specious.

403. In its note, FAFICS reiterated that it was an independent, representative body with its own statutes, rules of procedure and established standing as a non-governmental organization in consultative status with the Economic and Social Council. As such, it was neither a subsidiary body of the Pension Board nor a part of the General Assembly machinery. Consequently, FAFICS held that it was not within the authority of the Pension Board or the General Assembly to establish requirements for retirees to select their own retiree representatives. The selection process for its representatives remained the sole prerogative of FAFICS.

404. The position of FAFICS was echoed in the Board, where it was stated that (in the view of a member of the Assets and Liabilities Monitoring Committee) FAFICS was a separate legal entity and it was not for the Board to be seen to be interfering in the affairs of a separate organization. Furthermore, FAFICS was the sole representative of retirees and beneficiaries in the Board, in accordance with rule A.9 (e) of the rules of procedure of the Fund.

405. The representatives of the United Nations participants noted that the proposal regarding FAFICS representation had been tabled at the request of a number of retirees, who felt that FAFICS had not adequately and properly represented their interests. This had come to light during the previous payment delays. For that reason, it was felt that direct elections would better determine the most appropriate representatives of retirees to the Board. It was not a question of meddling in FAFICS affairs or telling them how to organize themselves but a question of how retirees could organize their representation. In any case, beneficiaries had come to see them to complain about delays in the receipt of payments.

406. The FAFICS representatives stated their firm conviction that they had been diligent in helping all beneficiaries who had come to see them regarding difficulties with the non-receipt or late receipt of payments. It was recalled that FAFICS was a federation of national associations and that those national associations were the place to deal with such "field" issues. For example, in Rome, the local association had received complaints and had been in frequent contact with the local staff pension committee secretaries and the Fund in seeking a solution.

407. The representatives of the United Nations participants stated that, in their view, the payment delays that had arisen in the implementation of the Integrated Pension Administration System had brought the issue of representation to light and that they had received feedback that some beneficiaries felt they were not being adequately represented.

408. It was recalled that the recommendation of OIOS on this matter had been rejected by the Board and accordingly the issue was moot. **The Board therefore decided not to pursue the matter further.**

Chapter XIII

Benefit provisions of the Fund

A. Reports on the monitoring of the impact of currency fluctuations on the pension benefits of the Fund and the application of paragraph 26 of the Pension Adjustment System

409. The Chair referred to two documents that had been prepared by the secretariat and made available to the Board. One of the documents contained details on the usual annual monitoring of the operation of the two-track feature of the Pension Adjustment System and the other contained information on the suspension of the local currency track benefit in the Syrian Arab Republic from 1 January 2018. The Chair ruled that the documents should be considered as read, given that that both documents were for information only.

410. A member of the participants group recalled that in previous Board meetings it had been proposed that, absent any significant change in the monitored position regarding income replacement rates, there was no need for the currency fluctuation report to be presented to the Board so frequently. Accordingly, she suggested that the report be presented every two years, unless any material change in functioning required a shorter reporting cycle. The Board was informed that the secretariat of the Fund monitored the local currency track pension amounts on a regular basis.

411. **The Board accepted the proposed change to the reporting cycle for the monitoring of the impact of currency fluctuations.**

B. Report on the International Civil Service Commission study of pensionable remuneration

412. The Board was informed that ICSC had completed a study of the current methodology for determining pensionable remuneration for both Professional and General Service staff. As pensionable remuneration is fundamental to the level of pension benefits and the funding of the Pension Fund, the Pension Board, at its sixty-fourth session, appointed a contact group to address any matters that might arise between Board sessions regarding the study.

413. The representative of the contact group described the process it had followed and its activities, as well as the current status of the changes proposed by the Commission. The contact group reviewed the study of the ICSC working group on pensionable remuneration, as well as the financial implications of the working group's proposals and administrative considerations for the Fund. The group recommended streamlining article 51 (on pensionable remuneration) of the Regulations of the Fund. The representative explained that the Commission would be recommending a few changes to the calculation of pensionable remuneration that would increase pensionable remuneration for all Professional staff. With respect to General Service staff, pensionable remuneration rates would not be affected for the majority of staff members. The Board was informed that the changes would not create any extra administrative work for the secretariat of the Pension Fund, but they would require member organizations to modify their payroll systems to manage the change in contributions and pensionable remuneration reporting to the Fund. There would be a small increase in the Fund's required contribution rate, estimated at 0.12 per cent of pensionable remuneration.

414. The representative of the secretariat of ICSC briefed the Board on the comparability study of the pension schemes of the United States federal civil service

and the Pension Fund, the results of which were presented to ICSC at its eighty-seventh session, which had been held just before the Board session. The study showed that the replacement ratios for the benefits provided under the Pension Fund using the proposed pensionable remuneration remained comparable to the benefits provided under the United States Federal Employees Retirement System scheme. He further advised the Board that the Commission had decided to make the recommendations that it had agreed to previously to the General Assembly.

415. The Board thanked the contact group for its service and requested that the members remain available throughout 2018 in case any issues arose when this matter was taken up by the Advisory Committee on Administrative and Budgetary Questions and the General Assembly at its seventy-third session. The representative of the executive heads from the United Nations appointed M. H. Lopez to replace V. Kisob in the contact group, as he was no longer a Board member.

416. **The Pension Board took note of the recommendations of ICSC to the General Assembly with regard to changes to pensionable remuneration for both Professional and General Service staff, and noted that they would have limited effects on the long-term funding and administration of the Pension Fund.**

C. Review of the provisions of article 24 of the Regulations of the Fund to allow for restoration of deferred retirement benefits

417. In 2015, in the context of an appeal, the Staff Pension Committee of WHO considered certain provisions of the Regulations of the Fund regarding the restoration of prior contributory service for participants who re-enter the Fund after electing a deferred retirement benefit.

418. The Staff Pension Committee had initially raised the issue at the Board's sixty-third session, in 2016, but its note was withdrawn for further discussion. In July 2016, the United Nations Appeals Tribunal considered a case that gave rise to the issue that was mentioned by the Staff Pension Committee (judgment No. 2016-UNAT-656), and the Tribunal stated that the Fund might wish to reconsider whether revised article 24 (a) was in fact achieving what it was intended to achieve, namely, the enhancement of the mobility of staff and the portability of pensions.

419. At the sixty-fourth session of the Board, the Secretary/Chief Executive Officer submitted a note providing a brief summary of the issue, as well as a suggestion regarding the analysis that would be necessary in order to provide the Board with sufficient information to consider the concern raised by the WHO Staff Pension Committee. After discussion, the Board requested that the Secretary/Chief Executive Officer continue to research the legislative history of the restoration provisions of the Fund and prepare a document to inform a discussion at the sixty-fifth session on whether it would be appropriate to request a comprehensive study of the issue.

420. The Board considered the legislative history of the restoration provisions, building on the content that it had considered at its fifty-fifth session, in 2008, in the context of the last changes that had been made to article 24 of the Regulations. There was also a paper by the consulting actuary that provided an estimate of the cost of restoring deferred retirement benefits, if an amendment to article 24 of the Regulations were approved by the Board.

421. **Following the discussion by the Board and taking into account the decision by the General Assembly in its resolution 59/269 that it would not consider any further proposals to enhance or improve pension benefits until action was taken on the issues contained in its resolution 57/286 to reverse certain benefit changes that were made as cost-saving measures, the Board decided that the**

Secretary/Chief Executive Officer should undertake a study of possible options for allowing restoration of deferred retirement benefits that would be cost-neutral for the Fund. The study would be presented to the Board at its next session, in 2019.

D. Adoption of deadlines for requests and claims under the Regulations and Administrative Rules of the Fund

422. In 2016, the Board considered an amendment to article 46 of the Regulations that would limit the period for making a claim against the Fund. The Board did not reach consensus on the matter, and there were reservations expressed with regard to the wording of the amendment. The Secretary/Chief Executive Officer was requested to reword the provision to make it more specific in terms of the benefits to which it would apply.

423. In line with the Board's comments in 2016 on the amended proposal, the Secretary/Chief Executive Officer proposed that the limitation be placed on lump-sum payments or individual monthly payments that a beneficiary claimed had not been received, but regarding which the Fund had no reason to believe that a payment had not been made and received, based on documentation in the Fund's files or the non-return of the payment by the recipient's bank.

424. **The Board approved an amendment to article 46 of the Regulations that would limit the period for claims in respect of lump-sum or monthly periodic benefits to no more than 10 years after the payment was due or the error was made. In addition, the title of the article was amended to include the limitation on claims, and article 46 (e) was extended to provide for a reinstatement of a benefit if the failure to make a claim was due to circumstances beyond the control of the beneficiary.** The full text of the amended provision is provided in annex XI.

E. Changes to the Regulations and rules of procedure of the Fund

425. The Board was requested to approve several changes to the Regulations and rules of procedure of the Fund. None of the proposed amendments created new benefits or changed the existing ones. Rather, they clarified or corrected the language of the provisions in accordance with the current practice of the Fund. Several proposed amendments arose from other documents before the Board.

426. **The Board approved the inclusion in article 4 of the Regulations of a provision specifying that it would adopt its own rules of procedure, as stated in rule A.5 of the rules of procedure.** The representatives of the United Nations participants did not agree with the decision to elevate to the Regulations the ability of the Board to adopt its rules of procedure. In their view, this would present a direct challenge to the authority of the General Assembly over the Fund.

427. In 2017, the Board approved a change to rule C.1 of the rules of procedure. The Secretary/Chief Executive Officer proposed that the provision adopted in 2017 in this regard be included in article 6 of the Regulations. The representatives of the United Nations participants did not agree with the decision to deny Pension Fund staff the right to stand for election in their own Pension Fund. It was felt that this issue was drawing attention away from other, more serious conflicts of interest that it needed to be attend to. The Board determined by a vote of 27 members against and 4 in favour (United Nations participants) that it would not vote on the inclusion of the provision, given the clear majority of members in support of the change. **The Board approved**

the change to article 6 of the Regulations after it was clear that the majority of members agreed with the change.

428. **Amendments to articles 30 and 32 of the Regulations concerning deferred retirement benefits and deferment of the choice of benefit were approved by the Board to clarify the nature of the benefits payable under each provision.**

429. **The Board approved a new provision in article 46 of the Regulations that limits the period for claims to a maximum of 10 years for lump-sum and monthly periodic benefits where it is clear that payment has been made, as well as a further amendment to article 46 (e) of the Regulations and a change in the title of the article to include the limitation on claims.**

430. In the light of Appeals Tribunal judgments 2017-UNAT-801, *Faye v. UNJSPB*, and 2017-UNAT-807, *Rockcliffe v. UNJSPB*, the Secretary/Chief Executive Officer proposed an amendment to article 48 of the Regulations to clarify the scope of the jurisdiction of the United Nations Appeals Tribunal in relation to the Fund's review and appeals procedure under article 48 of the Regulations and article 2.9 of the Statute of the Tribunal. **The Board approved the amendment to article 48 of the Regulations**. A similar amendment to article 2.9 of the Statute of the Tribunal will be submitted by the Secretary-General to the General Assembly for approval.

431. The representatives of the United Nations participants and the representative of the WIPO participants did not agree with the decision to exclude aspects of the Fund from the jurisdiction of the Appeals Tribunal. They felt that the Fund and the Board should not be immune from Regulations established by the General Assembly.

432. **Following discussion, the Board did not approve the amendment to article 51 (pensionable remuneration) of the Regulations.** In 2015, the Board had approved a declaration on confidentiality and conflict of interest, to be signed by all Pension Board members and others attending the sessions of the Board in lieu of a financial disclosure statement. **The Board approved a provision in rule A.5 of the rules of procedure that would codify the practice of signing the declaration.** The representatives of the United Nations participants signed the declaration with reservations and did not agree with the requirement that members of the Board sign the current declaration on confidentiality and conflict of interest. They were of the view that the proposed requirement was incompatible with the Regulations as approved by the General Assembly, which did not restrict access to the Board. Furthermore, they viewed the current declaration as deviating considerably from external practice. However, they welcomed the invitation to provide a proposed text for the declaration to be considered at the sixty-sixth session.

433. **The amendments to the Regulations and rules of procedure recommended by the Board for approval by the General Assembly are set out in annexes XI and XII, respectively.**

F. Amendment to rule C.1 of the rules of procedure of the Fund

434. The representatives of the United Nations participants presented an amendment to rule C.1 of the rules of procedure of the Fund to reverse the decision taken by the Board in 2017 that "staff members of the secretariat of the Fund and of the Investments Management Division of the Fund, and staff members of the secretariat of each staff pension committee shall not be eligible to be elected or appointed to represent any constituent group in the staff pension committee of any member organization of the Fund, and consequently to serve on the Pension Board". The representatives of the United Nations participants proposed that the language be

changed to confirm instead that such staff members "shall also be eligible to be elected".

435. **The Board rejected the change proposed by the representatives of the United Nations participants in the light of its decision at the current session to recommend the amendment to article 6 of the Regulations noted at paragraph 427 above.**

Chapter XIV
Other matters

A. Judgments of the United Nations Appeals Tribunal of interest to the Board

436. The Secretary/Chief Executive Officer provided information on four judgments issued by the United Nations Appeals Tribunal since the sixty-fourth session of the Board, in which the Pension Board had been the respondent.

437. The Tribunal upheld one decision of the Standing Committee, partially granted one appeal, and set aside two decisions of the Standing Committee. The appeal was dismissed in judgment 2018-UNAT-830, *Schepens v. UNJSPB*, concerning a request for restoration of a prior period of contributory service following election of a deferred retirement benefit. The Tribunal was consistent with its determination in previous cases that the right to restore was not available to those who had elected a deferred retirement benefit after 1 April 2007. The Tribunal partially allowed the appeal in 2018-UNAT-834, *Fox v. UNJSPB*, in which the appellant requested that the Fund pay her the portion of the contributions made on behalf of her employing organization during a period of special leave without pay. In that judgment, the Tribunal determined that the appellant could exceptionally opt for a deferred retirement benefit since she had not been provided with full information at the time that she made her choice of benefit.

438. Judgments 2017-UNAT-801, *Faye v. UNJSPB*, and 2017-UNAT-807, *Rockcliffe v. UNJSPB*, regarding the eligibility of staff members of the secretariat of the Fund who had been elected as representatives of participants to serve on the United Nations Staff Pension Committee, and consequently on the Pension Board, raised the issue of a conflict of interest that had been addressed by the Standing Committee of the Board in accordance with rule B.4 of the rules of procedure of the Fund in June 2017. After due consideration of all of the issues, the Standing Committee had decided that, owing to the conflict of interest, the appellants should not be given access to Pension Board documents, nor could they participate in any formal preparations for Pension Board sessions or in any meetings of the Pension Board and of its constituent groups, committees and working groups until such time as the conflict of interest had been resolved. The appellants appealed the decision to the United Nations Appeals Tribunal.

439. The secretariat of the Fund asserted that the cases were not receivable in accordance with article 48 of the Regulations of the Fund and articles 2.9 (a) and (b) of the Statute of the Tribunal, as they did not arise from the appellants' eligibility as participants in the Fund under article 21 of the Regulations of the Fund or from rights that they were entitled to by virtue of participation in the Fund as staff members of a member organization of the Fund. Furthermore, the Standing Committee had not made the decision as an appellate body under section K of the Administrative Rules of the Fund, but under rule B.4 of the rules of procedure of the Fund, whereby the Standing Committee acts on behalf of the Pension Board when it is not in session. In addition, the United Nations Legal Counsel in 1992 had provided an opinion confirming that the election of a staff member of the Fund to the United Nations Staff Pension Committee would constitute a conflict of interest, and this was confirmed in May 2017 by the current Legal Counsel.

440. The Tribunal found that it was competent to hear and pass judgment on appeals alleging non-observance of all of the Regulations of the Fund, including article 6, and decided that the Standing Committee's decision to deny each appellant access to the Pension Board documents and to prevent them from participating in any formal preparations for the sessions and meetings of the Board and its constituent groups,

committees and working groups was flawed and not in accordance with the law. The Tribunal found that at the time that each appellant had decided to be a candidate in the election there was no law which prevented him or her from being elected to the United Nations Staff Pension Committee once the requirements to be an eligible candidate had been met. The Tribunal set aside the decision of the Standing Committee that the appellants could not be given access to Pension Board documents and participate in formal preparations for Pension Board sessions and meetings and of its constituent groups, committees and working groups until such time as the conflict of interest had been resolved. The Tribunal ordered that the appellants be granted access to all the relevant Pension Board documents and be allowed to participate and function as elected members in all relevant areas, since there was no law which empowered the Standing Committee to remove or restrict the appellants' rights and privileges. The Tribunal did not address the conflict of interest, noting that it would "not comment on the policies of the Fund". In the case of *Faye v. UNJSPB*, the Tribunal rejected the claim for moral damages in the sum of $3 million, finding that the Appellant did not submit any evidence to support his claim.

441. **The Board took note of the decisions of the United Nations Appeals Tribunal.**

B. Report of the 200th meeting of the Standing Committee

442. **The Board took note of the report of the 200th meeting of the Standing Committee, held in July 2017 during the sixty-fourth session of the Pension Board.**

C. Election of members of the Standing Committee (rules of procedure, rule B.1)

443. **The members of the Standing Committee, as elected by the Board in 2018, are listed in annex III to the present report.**

D. Selection of the members of the Budget Working Group for the review of the 2020 budget

444. The Board appointed the following members to the Budget Working Group for 2019:

J. Makori (UNIDO)	Governing bodies
H. Kozaki (United Nations)	Governing bodies
J. P. Lovato (ITU)	Executive heads
D. Thatchaichawalit (United Nations)	Executive heads
N. I. Vigil (WHO)	Participants
M. Rockcliffe (United Nations)	Participants
B. Fitzgerald (WIPO)	Participants (alternate)
M. Seenappa	FAFICS
M. Breschi	FAFICS

445. A candidate proposed by the participants group to serve on the Budget Working Group was challenged by members of the Board based on a perceived conflict of

interest owing to the fact that she was a staff member of the secretariat of the Fund. She recalled that, in its judgment, the United Nations Appeals Tribunal had stated that, as a duly elected member of the United Nations Staff Pension Committee and the Pension Board, she had the same rights and privileges as all other Board members, and that she should be provided with all documentation and be eligible for all committees and working groups of the Board.

446. **The Board decided that advice should be sought from the Director of the Ethics Office about whether a staff member of the Pension Fund, who is also a member of the Pension Board, serving on the Budget Working Group created a conflict of interest situation.**

447. **The Board requested that the Chief Executive Officer and the Representative of the Secretary-General transmit the proposed budget to the Budget Working Group 45 days prior to the Board's sixty-sixth session, in 2019.**

E. Application for membership in the Fund

448. The Board was informed that the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization had applied for membership in the Fund. The Board was advised that the secretariat of the Fund had reviewed and confirmed that the Commission met all the requirements provided in article 3 of the Regulations of the Fund. Furthermore, ICSC had reviewed the Staff Regulations and Rules of the Preparatory Commission and confirmed that they were in compliance with the relevant human resources provisions of the United Nations common system. In addition, the Executive Secretary of the Preparatory Commission had verified that, upon formalizing the admission process, the Commission would undertake to accept the Regulations and Rules of the Fund, including the jurisdiction of the United Nations Appeals Tribunal in pension matters (article 48 of the Regulations of the Fund).

449. The Pension Board was informed that the secretariat of the Fund had held extensive discussions and consultations with the administration and legal team of the Preparatory Commission. Moreover, the Committee of Actuaries had reviewed the Preparatory Commission's application for membership in June 2018 and concluded that the Fund had no actuarial requirements for adding new organizations to its membership. The Committee of Actuaries noted that, because the Fund was following the provisions of its standard transfer agreement, the effect was actuarially neutral for the Fund when recognizing and crediting past service.

450. The Board was further notified that, at its fiftieth session, in July 2018, the Preparatory Commission had approved the agreement for admission of the Preparatory Commission to the Pension Fund. Pursuant to article 3 (c) of the Regulations of the Fund, the Board was requested to make an affirmative recommendation on the membership.

451. **The Board recommended to the General Assembly that the Preparatory Commission for Comprehensive Nuclear-Test-Ban Treaty Organization be admitted to membership in the Fund with effect from 1 January 2019.**

F. Transfer agreements

452. In accordance with article 13 of the Regulations of the Fund, the Board may, subject to the concurrence of the General Assembly, approve agreements with Member States of a member organization and with intergovernmental organizations, with a view to securing continuity of pension rights between the Governments of such States or organizations and the Fund.

453. In 2012, the Pension Board and the General Assembly approved a transfer agreement with the African Development Bank. The Bank, however, did not subsequently sign the approved transfer agreement, as it wanted to make some changes to the text. At its sixty-first session, in 2014, the Board took note of the withdrawal of the transfer agreement.

454. The Board recalled that the Fund had a model transfer agreement, which had been developed following a comprehensive review of the administration and operations of the Fund's existing transfer agreements, as further reviewed by the Committee of Actuaries. The African Development Bank had requested a few minor changes to the language of the model agreement and those were acceptable to the secretariat of the Fund.

455. The African Development Bank contacted the secretariat of the Fund in 2015 to express continued interest in pursuing a transfer agreement. The Bank informed the Fund that it had discussed the original agreement with its legal team and its pension board and provided the Fund with suggested minor changes to the language. The changes were considered neutral from the Fund's perspective and therefore acceptable, as the starting point was the model agreement.

456. The Committee of Actuaries reviewed the proposed transfer agreement in June 2018. The Committee took note of the proposed transfer agreement and the fact that it followed the provisions of the model agreement provided to the Committee in 2012, indicating that its provisions were intended to be cost-neutral to the Fund. The Committee agreed that should new transfer agreements, based on the approved model agreement, be concluded with other intergovernmental organizations, it wished to be informed, but agreed there was no need to obtain a separate concurrence from the Committee of Actuaries.

457. **The Pension Board approved, subject to the concurrence of the General Assembly, the transfer agreement of the Pension Fund with the African Development Bank, which is set out in annex XIII to the present report.**

G. Venue and dates of the sixty-sixth session of the Pension Board

458. The Board took note of the invitation received from the United Nations Secretariat to host its sixty-sixth session, in 2019, in Nairobi. The Secretariat explained that the invitation was made after careful consideration of various factors, such as cost implications and the change of the United Nations from a largely headquarters-based organization to a more field-based organization. The representatives of the General Assembly expressed regret that the Board had not returned to the established pattern with respect to the venue, whereby Board meetings in odd-numbered years were held in New York. The Board thanked the United Nations and accepted the invitation. The Board noted that, in accordance with established practice, the session would be for five working days, with training to be provided on the day preceding the start of the session.

459. **The Board decided to meet at the United Nations Office at Nairobi in 2019 for five working days (22–26 July 2019, subject to final confirmation of the dates of the meetings of ICSC and the Human Resources Network). In addition, there will be a meeting of the Standing Committee on 18 July 2019 and a training session on 19 July 2019.**

460. **The Board took note of the invitation received from WMO to hold its sixty-seventh session, in 2020, in Geneva. The Board thanked WMO and accepted the invitation, with the dates of the session to be decided in 2019.**

H. Other business

461. A representative of UNIDO participants stated that it was regrettable that the discussions of the Board had been monopolized by a few members, who were in the minority, and that the Board's final report, in almost all aspects, reflected the consensus and unanimity of all members except that minority group.

462. This behaviour, including the recording of disagreements, had, in her view, changed the dynamics in the Board. She noted that the level of discussion had shifted from strategic guidance and vision to, at times, unnecessary micromanaging of operations or personal attacks against the management. She wished that, in the future, the Board would return to a more collegial, professional, positive and forward-looking atmosphere. The practice of the Board had been to operate on a consensus basis, and it was hoped that all could join that consensus, even if all Board members could not always agree with all parts of the decisions or nuances of them.

Annex I

Member organizations of the United Nations Joint Staff Pension Fund

The member organizations of the United Nations Joint Staff Pension Fund are the United Nations and the following:

European and Mediterranean Plant Protection Organization

Food and Agriculture Organization of the United Nations

International Atomic Energy Agency

International Centre for Genetic Engineering and Biotechnology

International Centre for the Study of the Preservation and the Restoration of Cultural Property

International Civil Aviation Organization

International Criminal Court

International Fund for Agricultural Development

International Labour Organization

International Maritime Organization

International Organization for Migration

International Seabed Authority

International Telecommunication Union

International Tribunal for the Law of the Sea

Inter-Parliamentary Union

Special Tribunal for Lebanon

United Nations Educational, Scientific and Cultural Organization

United Nations Industrial Development Organization

World Health Organization

World Intellectual Property Organization

World Meteorological Organization

World Tourism Organization

Annex II

Membership of the United Nations Joint Staff Pension Board and attendance at the sixty-fifth session

The following members and alternate members were accredited by the staff pension committees of the member organizations of the United Nations Joint Staff Pension Fund, in accordance with the rules of procedure:

Representing	*Member*	*Alternate*
United Nations		
General Assembly	D. Chumakov	H. Kozaki
General Assembly	T. Repasch	J. Stosberg*
General Assembly	P. R. O. Owade	Md. M. Rahman[1]
General Assembly	L. Mazemo	P. Poroli
Secretary-General	J. Beagle	K. Alford
Secretary-General	B. Bartsiotas	T. Panuccio[2]
Secretary-General	M. H. Lopez	
Secretary-General	C. Saunders*	
Participants	M. Abu Rakabeh	N. A. Ndiaye
Participants	I. Richards	I. Faye
Participants	M. Rockcliffe	
Participants	B. Nyiratunga	
Food and Agriculture Organization of the United Nations		
Governing body	V. Mustaciosu	A. Minaev
Executive head	A. Van Houtte	D. Marzano
Participants	J. Levins[3]	C. Ascone (26–27 July)
		D. Fontana* (30 July–3 August)
World Health Organization		
Governing body	A. Ludowyke	
Executive head	J. Kobza	N. Jeffreys
Participants	K. Bruchmann	N. I. Vigil
United Nations Educational, Scientific and Cultural Organization		
Governing body	J. E. Garcia	
Participants	T. Jongwe	

Representing	*Member*	*Alternate*
International Labour Organization		
Participants	E. Fombuena	F. Leger*
International Atomic Energy Agency		
Executive head	W. Tam	
World Intellectual Property Organization		
Governing body	V. Yossifov	
Executive head	T. Dayer	
International Civil Aviation Organization		
Governing body	D. Mendez	
Executive head	L. Lim	K. Balram
United Nations Industrial Development Organization		
Participants	L. Azzouni-Gerold	G. Boldt
International Telecommunication Union		
Participants	M. A. Pegorier	P. Ransome
World Meteorological Organization		
Governing body	G. Navarro	
International Maritime Organization		
Executive head	L. Dominic	
International Fund for Agricultural Development		
Participants	F. Ranalletta	L. Chicca*

2. The following attended the session of the Board as representatives, observers or secretaries of staff pension committees, in accordance with the rules of procedure:

Representative	*Organization*	*Representing*
N. Wozencroft	UNESCO	Executive head
I. Zabaar	IAEA	Participants
J. Makori[4]	UNIDO	Governing body
B. Fitzgerald	WIPO	Participants
C. Dermarker	ICAO	Participants
J. Sanou	ITU	Governing body
J. P. Lovato	ITU	Executive head
B. Exterkate	WMO	Executive head

Representative	*Organization*	*Representing*
M. Schalk	WMO	Participants
S. J. Kim	IMO	Participants
P. Pestana	IFAD	Governing body
A. Lario (26 and 31–3 August)	IFAD	Executive head
P. Moreau-Peron (27 and 30 July)	IFAD	Executive head
S. Goffard	ICCROM	Governing body
A. Holmes	IOM	Executive head
S. Buergers	International Tribunal for the Law of the Sea	Participants
L. Saputelli	FAFICS	Pensioners
W. Sach	FAFICS	Pensioners
M. Breschi	FAFICS	Pensioners
G. Schramek	FAFICS	Pensioners
M. Sebti (Alternate)	FAFICS	Pensioners
A. Gomez (Alternate)	FAFICS	Pensioners
V. M. Gonzalez Posse	Assets and Liabilities Monitoring Committee	Chair
O. Briones	Assets and Liabilities Monitoring Committee	
J. Pozenel	Assets and Liabilities Monitoring Committee	
M. Seenappa	Assets and Liabilities Monitoring Committee	

Observers	*Organization*
K. Rhodes	ICSC
A. Mantovani	ICSC
Y. Orlov	ICSC
I. M. Razali	FICSA
L. Lo Cicero	CCISUA
L. Gallacher	HLCM/CEB

Secretaries	*Staff pension committees*
K. Guseynova	FAO
B. Sperandio de Llull	WHO
C. McGarry	ILO
I. Welter	UNESCO
A. Leveque (25–27 July)	UNESCO
R. Dotzauer	UNIDO
M. S. Zinzindohoué	WIPO
S. Suedi	ITU
M. Buch	WMO
D. Maffi	WMO
A. Barbato	IMO
C. Schiarini	IFAD
S. Janowski	ICCROM
M. Grant	IOM
B. Tamaro	ICGEB

3. The following attended all or part of the session of the Board:

Committee of Actuaries

B. K. Y. S. Yen[1]

A. Scardino Devoto

A. Billig

Consulting actuary

T. Manning, Buck Consultants

S. Schulman, Buck Consultants

Audit Committee

D. Thatchaichawalit[3]

Medical consultant[5]

J. Farmer

Board of Auditors[5]

A. Bajaj

P. Sen

N. Singhvi

OIOS[5]

E. Burns

G. Kumar

F. Salon

N. Yamakawa

V. Singhal

M. Fridman

Investments Committee (30 July)

M. Dhar[3]

S. Jiang

L. Mohohlo

G. Oliveros

K. Honda

K. Adeosun

Representative of the Secretary-General for the investment of the assets of the Fund

S. Rajkumar

Investment Management Division

H. Bril, Director

W. Wilkinson

W. C. Wang

T. Shindo

I. Munch

S. Peerthum, Secretary, Investments Committee

B. Petkova

P. David

4. P. Dooley, Deputy Chief Executive Officer, served as Secretary for the session, with the assistance of A. Blythe, J. Sareva, K. L. Soll, M. C. O'Donnell, C. Dell'Accio, D. Mapondera, K. Toomel and K. Manosalvas.

Notes:

* Did not attend.

[1] Rapporteur.

[2] Second Vice-Chair.

[3] Chair.

[4] First Vice-Chair.

[5] By videoconference.

Annex III

Membership of the Standing Committee

Representing	*Member*	*Alternate*
United Nations (Group I)		
General Assembly	T. Repasch	D. Chumakov
	P. R. Owade[1]	H. Kozaki
		P. Poroli
Secretary-General	M. H. Lopez[2]	
	K. Alford	
Participants	I. Richards[3]	M. Abu Rakabeh
	M. Rockcliffe	B. Nyiratunga
Specialized agencies (Group II)		
Governing body	V. Mustaciosu (FAO)	
Executive head	A. Van Houtte (FAO)	
Participants	H. Willmann (WHO)	J. E. Mackenzie
Specialized agencies (Group III)		
Governing body	P. Coutaz (ILO)	
Executive head	N. Wozencroft (UNESCO)	
Participants	I. Zabaar (IAEA)	
Specialized agencies (Group IV)		
Participants	C. Dermarker (ICAO)	
Executive head	C. Ziniel (UNIDO)	
Specialized agencies (Group V)		
Governing body	A. Prempeh (IMO)	
	Members	Alternate Representatives
Federation of Associations of Former International Civil Servants		
	A. Gomez Saguez	L. Saputelli
	M. Sebti	M. Breschi

Notes:

[1] Second Vice-Chair.

[2] Chair.

[3] First Vice-Chair.

Annex IV

Statement of the actuarial sufficiency, as at 31 December 2017, of the United Nations Joint Staff Pension Fund to meet the liabilities under article 26 of the Regulations

1. In the report of the thirty-fourth actuarial valuation of the United Nations Joint Staff Pension Fund, the consulting actuary has assessed the actuarial sufficiency of the Fund, for purposes of determining whether there is a requirement for deficiency payments by the member organizations under article 26 of the Regulations of the Fund. The assessment as at 31 December 2017 was based on participant and asset information submitted by the secretariat of the Fund and on the Regulations in effect from 1 January 2018.

2. The demographic and other actuarial assumptions used, including a 6.0 per cent discount rate, were those adopted by the Pension Board at its sixty-fourth session, in 2017, except that future new participants were not taken into account and no future salary growth was assumed.

3. The liabilities were calculated on a plan termination methodology. Under this methodology, the accrued entitlements of active participants were measured on the basis of their selecting the benefit of highest actuarial value available to them, assuming termination of employment on the valuation date. The liabilities for pensioners and their beneficiaries were valued on the basis of their accrued pension entitlements as at the valuation date. For the purposes of demonstrating sufficiency under article 26 of the Regulations, no provision was made for pension adjustments subsequent to 31 December 2017.

4. **All calculations were performed by the consulting actuary in accordance with established actuarial principles and practices.**

5. **The results of the calculations are set forth in the table below:**

Actuarial sufficiency of the Fund as at 31 December 2017

(Millions of United States dollars)

Item	*Amount*
Actuarial value of assets[a]	60 419.2
Actuarial value of accrued Benefit entitlements	43 394.1
Surplus	**17 025.1**

[a] Five-year moving average market value methodology, as adopted by the Pension Board for determining the actuarial value of the assets.

6. As indicated in the table above, the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the Regulations of the Fund in effect on the valuation date. **Accordingly, there is no requirement, as at 31 December 2017, for deficiency payments under article 26 of the Regulations of the Fund.** The market value of assets as at 31 December 2017 is $64,365.9 million. Therefore, the market value of assets also exceeds the actuarial value of all accrued benefit entitlements as of the valuation date.

Annex V

Statement of the actuarial position of the United Nations Joint Staff Pension Fund as at 31 December 2017

Introduction

1. The actuarial valuation as at 31 December 2017 was performed on a range of economic assumptions regarding future investment earnings and an assumed long-term inflation assumption of 2.5 per cent, except one scenario for which a long-term inflation assumption of 3.0 per cent was used. In addition, two sets of participant growth assumptions were used. The remaining actuarial assumptions, which are of a demographic nature, were derived on the basis of the emerging experience of the Fund, in accordance with sound actuarial principles. The assumptions used in the valuation were those adopted by the Pension Board at its sixty-fourth session, in 2017, based on the recommendations of the Committee of Actuaries.

Actuarial position of the Fund as at 31 December 2017

2. At its meetings in June 2018, the Committee of Actuaries reviewed the results of the actuarial valuation as at 31 December 2017, which was carried out by the consulting actuary. Based on the results of the regular valuation and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the consulting actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration was sufficient to meet the benefit requirements under the plan, and should be reviewed at the time of the next actuarial valuation, as at 31 December 2019.

Annex VI

Membership of the Committee of Actuaries

Member	*Representing*
B. K. Y. S. Yen (Mauritius)	Region I (African States)
S. Inagaki (Japan)	Region II (Asian States)
T. Párniczky (Hungary)	Region III (Eastern European States)
A. Scardino Devoto (Uruguay)	Region IV (Latin American and Caribbean States)
D. Latulippe (Canada)	Region V (Western European and Other States)

Ad hoc member	*Representing*
A. Billig (Canada)	Region V (Western Europe and Other States)
R. Schmid (Switzerland)	Region V (Western Europe and Other States)

Annex VII

Membership of the Investments Committee

K. Adeosun (Nigeria)

M. Dhar (Chair — India)

K. Honda (Japan)

S. Jiang (China)

A. Kassow (Germany)

M. Klein (United States of America)

L. K. Mohohlo (Botswana)

G. Oliveros (Spain)

L. Ribeiro (Brazil)

Annex VIII

Financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2017

Letter of transmittal to the Board of Auditors

In accordance with financial rule G.5 of the United Nations Joint Staff Pension Fund, we have the honour to transmit the financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2017, which we hereby approve. The Chief Executive Officer of the Fund and the Representative of the Secretary-General for the investment of the assets of the Fund approve the financial statements for their respective areas of responsibility. The financial statements have been completed and certified by the Chief Financial Officer of the Fund as correct in all material respects.

Article 7 (c) of the Regulations of the Fund provides that, in the absence of the Chief Executive Officer of the Fund, the Deputy Chief Executive Officer shall perform the functions of the Chief Executive Officer. Owing to the absence of the Chief Executive Officer, the Deputy has performed the functions of the Chief Executive Officer in respect of the approval of the financial statements, in accordance with article 7 (c) of the Regulations of the Fund.

(*Signed*) Paul **Dooley**
Deputy Chief Executive Officer
United Nations Joint Staff Pension Fund

(*Signed*) Sudhir **Rajkumar**
Representative of the Secretary-General
for the investment of the assets of the
United Nations Joint Staff Pension Fund

11 June 2018

Statement of certification

The financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2017 have been prepared in accordance with International Public Sector Accounting Standards (IPSAS), as issued by the International Public Sector Accounting Standards Board, and International Accounting Standard (IAS) 26, Accounting and reporting by retirement benefit plans, as issued by the International Accounting Standards Board. The summary of significant accounting policies applied in the preparation of the financial statements is included in the notes to the financial statements. The notes provide additional information on and clarification of the financial activities undertaken by the Fund during the period covered by these statements.

I certify that the appended financial statements of the United Nations Joint Staff Pension Fund are correct in all material respects.

(*Signed*) Karl-Ludwig W. **Soll**
Chief Financial Officer
United Nations Joint Staff Pension Fund

11 July 2018

Statement of internal control for the year ended 31 December 2017

Scope of responsibility

The United Nations Joint Staff Pension Fund was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and the other international organizations admitted to membership in the Fund. The Fund is a multiple-employer defined benefit plan and is governed by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization and a secretariat to the Board and to each such committee.

The Chief Executive Officer of the Fund, who is also the Secretary of the Board, discharges the Board's responsibility for the administrative supervision of the Fund secretariat. The Chief Executive Officer, under the authority of the Board, collects contributions, ensures record-keeping for the Fund secretariat, certifies benefit payments and deals with other issues related to the Fund's participants and beneficiaries. The Chief Executive Officer is also responsible for ensuring that actuarial matters are addressed with a view to maintaining the long-term sustainability and financial health of the Fund.

In accordance with article 7 (c) of the Regulations of the United Nations Joint Staff Pension Fund, in the absence of the Chief Executive Officer, the Deputy Chief Executive Officer shall perform these functions. Owing to the absence of the Chief Executive Officer, the Deputy Chief Executive Officer has performed these functions, in line with article 7 (c).

The investment of the assets of the Fund is the responsibility of the Secretary-General. The Secretary-General has delegated his authority and responsibility to act on his behalf in all matters involving his fiduciary duties related to the investment of the assets of the Fund to the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund. The Representative has delegated responsibility for the management and accounting of the investments of the Fund. The Representative exercises this duty and makes investment decisions after consultation with the Investments Committee and in the light of observations made from time to time by the Pension Board on investment policy.

The Chief Executive Officer and the Representative of the Secretary-General are responsible for establishing and maintaining a sound system of internal controls, in their respective areas of responsibility, to ensure the accomplishment of objectives, the economical use of resources, the reliability and integrity of information, compliance with rules and regulations and the safeguarding of assets.

Purpose of the system of internal control

The system of internal control is designed to reduce and manage, rather than eliminate, the risk of failure to achieve the objectives of the Fund and to improve performance. Therefore, it can provide only a reasonable, and not an absolute, assurance of effectiveness. Internal control is an ongoing process, effected by the Fund's governing bodies, senior management and other personnel, designed to provide reasonable assurance concerning the achievement of the following internal control objectives:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable rules and regulations

The Pension Fund statement of internal control is related to the control objective of reliability of financial reporting, and therefore its scope is limited to the effectiveness of internal controls over financial reporting as at 31 December 2017.

Capacity to handle risk

The Pension Fund has implemented a governance structure, a management process and internal and external oversight mechanisms to adequately identify, assess, manage, monitor and report the risks inherent to its operations. The enterprise-wide risk management framework adopted by the Fund reflects the nature of its operations and development as well as its specific requirements.

The Pension Fund internal control policy, approved in May 2014, defines internal control objectives, components and responsibilities, as well as the lines of defence in terms of internal control, which include: (a) management; (b) risk management and compliance sections; (c) internal audit; and (d) external audit. The Fund's internal controls over financial reporting provide reasonable assurance that assets are safeguarded, that transactions are properly recorded and authorized and that there are no material misstatements in the financial statements.

Pension Fund risk management and internal control framework

The purpose of the enterprise-wide risk management framework is to identify events that may affect the Pension Fund and manage risk within the Fund's risk appetite. The Fund's risk management framework includes the following components:

- *Risk management governance*. The operation of the risk management framework is supported by the full ownership and accountability of the Pension Board, management and staff for risk management activities. Specialized committees conduct oversight and provide advice to the Pension Board on risk management and internal control, as follows:
  - The Audit Committee oversees the work of the Office of Internal Oversight Services (OIOS) and the Board of Auditors, and the Fund's internal control framework.
  - The Assets and Liabilities Monitoring Committee advises the Pension Board on risk management, funding policy, asset-liability management and investment policy matters.
- *Enterprise-wide risk management policy*. The policy provides the basis for the operation of the risk management framework and specifies its applicability throughout the Fund. The enterprise-wide risk management methodology complements the policy and defines the steps, roles and responsibilities in the risk management process.
- *Enterprise-wide risk assessment*. The Fund conducts periodic risk assessment exercises, which serve as a basis for defining strategies to address the Fund's key risks.
- *Risk monitoring*. The Enterprise-wide Risk Management Working Group, co-chaired by the Chief Executive Officer of the Fund and the Representative of the Secretary-General, includes representatives from all units and monitors the Fund's risk profile and the implementation of risk management strategies. Risk management officers promote the implementation of the enterprise-wide risk management framework, facilitate risk assessments, advise on the implementation of risk management strategies, and monitor and report on the Fund's risk profile.

Review of the effectiveness of internal controls over financial reporting

The Pension Fund has considered the *Internal Control-Integrated Framework* of the Committee of Sponsoring Organizations of the Treadway Commission as a guideline for assessing its internal controls over financial reporting. The review by Fund management of the effectiveness of internal controls over financial reporting as at 31 December 2017 was supported by:

- The preparation of the statement of internal control, which involved:
    - A scoping exercise to identify key processes, accounts and disclosures and their supporting key information and communications technology (ICT) services.
    - Identification of key financial reporting risks.
    - Identification and documentation of: (a) entity-level controls; (b) key controls over financial reporting; and (c) key ICT general controls that support the operation of other controls over financial reporting.
    - Operational effectiveness testing of the key controls over financial reporting performed by management.
- Assertion letters on the effectiveness of internal controls over financial reporting signed by key officers in the Fund secretariat and the Investment Management Division. These officers recognize their responsibility for maintaining and executing internal controls over financial reporting and reporting any deficiencies identified.
- An independent service auditor performed an independent service audit on the controls applied by Northern Trust, the master record keeper for the Fund's investments and a custodian bank for the investments. Additionally, the Fund received an independent service audit report from and by Citibank NA, a second custodian bank for the investments. The audits were conducted in accordance with the standards defined by the American Institute of Certified Public Accountants and the International Auditing and Assurance Standards Board. Both audits concluded that, in all material respects, the controls were suitably designed and operating effectively to provide reasonable assurance that control objectives would be achieved.
- An independent provider was engaged to assess the effectiveness of managing information security risks of the new Integrated Pension Administration System, following the protocols defined by the International Organization for Standardization (ISO). In April 2016, the Fund secretariat obtained the ISO 27001 information security certification for the System, which provides assurances that the new system's operations and maintenance are in accordance with the information security management standard. The Fund secretariat is committed to maintaining the ISO 27001 certification, which is valid for three years, until March 2019.
- Independent auditors performed an International Standard on Assurance Engagements audit ISAE 3402 of the internal control framework of the United Nations International Computing Centre. The ISAE 3402 audit report provides an independent assessment of whether the Centre's controls are suitably designed and operated effectively. The ISAE 3402 audit report's conclusion was an unqualified opinion.
- The Audit Committee reviewed the results of OIOS and the Board of Auditors and received information on the implementation of audit recommendations. The

Representative of the Secretary-General and the Fund's Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Risk and Compliance Officers and internal and external auditors had periodic meetings with the Audit Committee.

- In accordance with its mandate, OIOS provided assurance that internal controls are adequate and functioning effectively. In the execution of a risk-based audit plan endorsed by the Audit Committee, OIOS conducted audit examinations in high-risk areas to provide assurance on the effectiveness of internal controls and identify control deficiencies. The Chief Executive Officer/Deputy Chief Executive Officer and the Representative of the Secretary-General, in their respective areas of responsibility, took appropriate actions to address recommendations resulting from internal audits.
- In accordance with its mandate, the Board of Auditors examined independently the financial statements, performing such tests and other procedures as it considered necessary to express an opinion in its annual audit report. The Board was given full and unrestricted access to all financial records and related data and to the Fund's management and Audit Committee to discuss any findings related to the integrity and reliability of the Fund's financial reporting. The external audit report accompanies the financial statements.

Significant internal control matters arising during the year

The statement of internal control for the year ended 31 December 2017 draws attention to key areas with an impact on internal controls over financial reporting, as follows:

(a) In January 2018, the Fund secretariat updated its pension fraud awareness, reporting and escalation policy. The objectives of the policy are to promote awareness, prevent fraud, enhance the Fund's internal controls and establish guidelines on reporting and escalation of fraud-related concerns;

(b) The scope of the statement of internal control was expanded to cover the process for the preparation of the census data for the actuarial valuation. In that regard, the Fund's management strengthened, documented and tested the internal controls applied in the preparation of the census data to be used in the actuarial valuation as at 31 December 2017. Similarly, the Fund assessed the process adopted by the Fund for the integrity of the information available in the business intelligence system and related data transfer and validation processes. The testing of internal controls did not identify internal control gaps or deficiencies in the preparation of the census data or the integrity of the business intelligence information;

(c) The Fund's management, within its scope of responsibility, has successfully implemented process and system changes and management reporting tools to address temporary and structural challenges related to efficiency aspects in the processing of benefit entitlements and client servicing. These actions translated into significant progress by the Fund in benefit processing during 2017, and allowed the closing of a critical audit recommendation related to client services;

(d) Complementarily, the Fund secretariat conducted an end-to-end review jointly with the United Nations and other member organizations to identify opportunities for streamlining the overall separation to payment process. The results of the end-to-end review were presented to the Pension Board at its sixty-fourth session, in July 2017. Management is currently implementing the short-term recommendations arising from the study.

Statement

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error or circumvention. Accordingly, even effective internal controls can provide only reasonable, but not absolute, assurance. Furthermore, because of changes in conditions, the effectiveness of internal controls may vary over time.

We are committed, within the scope of our respective areas of responsibility, to address any weaknesses in internal controls over financial reporting identified during the year and to ensure continuous improvement of internal controls.

On the basis of the above, we conclude that, to our best knowledge and information, there are no material weaknesses in internal controls over financial reporting, in our respective areas of responsibility, that would prevent the external auditors from providing an unqualified opinion on the financial statements or would need to be raised in the present document for the year ended 31 December 2017.

(*Signed*) Paul **Dooley**
Deputy Chief Executive Officer
United Nations Joint Staff Pension Fund

(*Signed*) Sudhir **Rajkumar**
Representative of the Secretary-General
for the investment of the assets of the
United Nations Joint Staff Pension Fund

23 April 2018

Financial overview

Introduction

1. The United Nations Joint Staff Pension Fund was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and the other international organizations admitted to membership in the Fund. The Fund is a multiple-employer defined benefit plan. There are currently 23 member organizations participating in the Fund. All participating organizations and employees contribute to the Fund on the basis of pensionable remuneration. The contribution rate is a fixed rate of 7.9 per cent for participants and 15.8 per cent for employers.

2. The Fund is governed by the United Nations Joint Staff Pension Board, made up of: (a) 12 members appointed by the United Nations Staff Pension Committee, of whom 4 are elected by the General Assembly 4 are appointed by the Secretary General and 4 are elected by the participants in service in the United Nations; and (b) 21 members appointed by the staff pension committees of the other member organizations in accordance with the rules of procedure of the Fund, of whom 7 are chosen by the bodies of the member organizations corresponding to the General Assembly, 7 are appointed by the chief administrative officers of the member organizations and 7 are chosen by the participants in service.

3. The Fund is administered by the Pension Board, a staff pension committee for each member organization, and a secretariat to the Board and to each such committee. The Chief Executive Officer of the Fund also serves as Secretary of the Pension Board. The Secretary/Chief Executive Officer is appointed by the Secretary-General on the recommendation of the Pension Board.

4. The Chief Executive Officer is responsible for the administration of the Fund and for the observance, by all concerned, of the Regulations, Rules and Pension Adjustment System of the Fund. This includes responsibility for the establishment of policy; the administration of the Fund's operations and the overall supervision of its staff; the responsibility for the organization, servicing and participation of the Fund secretariat in the meetings of the Pension Board, its Standing Committee, the Audit Committee, the Committee of Actuaries, the Assets and Liabilities Monitoring Committee and other related bodies; the responsibility for representing the Board at meetings of the Fifth Committee of the General Assembly, the Advisory Committee on Administrative and Budgetary Questions, the International Civil Service Commission and any other pertinent bodies; and serving as Secretary of the United Nations Staff Pension Committee. With regard to administrative services, the Fund utilizes the United Nations "machinery", including payroll, recruitment and other human resources functions; procurement; administration of justice; internal audit; and other administrative services. Within this framework, the Chief Executive Officer is responsible for providing some administrative support to the Investment Management Division. In accordance with article 7 (c) of the Regulations of the Fund, in the absence of the Chief Executive Officer, the Deputy Chief Executive Officer shall perform the functions of the Chief Executive Officer.

5. The investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with an Investments Committee and in the light of observations and suggestions made from time to time by the Board on the investments policy. The Secretary-General has delegated his authority and responsibility to act on his behalf in all matters involving his fiduciary duties related to the investment of the assets of the Fund to the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund. The Representative shall arrange for the maintenance of detailed accounts of all investments and other

transactions relating to the Fund, which shall be open to examination by the Pension Board.

Financial performance

Changes in net assets available for benefits

6. There was an increase in the net assets available for benefits for the year ended 31 December 2017 of $9,877.8 million (2016: $2,358.1 million). The increase was attributable primarily to investment income for the year.

7. Investment income for 2017 was $10,241.2 million (2016: $2,667.6 million). Investment income for 2017 comprised net appreciation in fair value of investments of $9,081.3 million, dividend income of $865.8 million and interest income of $361.7 million. The increase of $7,573.7 million compared with the prior year was driven largely by the increase in the fair value of equities and fixed-income securities.

8. Total contributions (from participants: $792.6 million; member organizations: $1,577.1 million; and other contributions: $31.2 million) for 2017 were $2,400.9 million (2016: $2,273.5 million), reflecting an increase of $127.4 million (or 5.6 per cent) compared with the total contributions for 2016.

9. Benefit expenses for 2017 of $2,673.3 million (2016: $2,506.5 million) reflected an increase of $166.8 million (or 6.7 per cent) compared with the benefit expenses for 2016.

10. Administrative expenses for 2017 of $97.4 million (2016: $74.8 million) reflected an increase of $22.6 million (or 30.3 per cent). The increase in administrative expense was due primarily to an increase in the changes in the liabilities for after-service health insurance of $11.0 million, an increase in contractual services of $6.9 million and an increase in other staff costs of $3.0 million.

Statement of net assets available for benefits

11. Net assets available for benefits at 31 December 2017 were $64,365.9 million (2016: $54,488.1 million), reflecting an increase of $9,877.8 million (or 18.1 per cent).

12. Cash and cash equivalents at 31 December 2017 were $971.8 million (2016: $1,562.5 million), reflecting a decrease of $590.7 million (or 37.8 per cent).

13. Fair value of investments at 31 December 2017 was $63,565.6 million (2016: $52,951.2 million), reflecting an increase of $10,614.4 million (or 20.0 per cent). Details with regard to the investment classes at 31 December 2017 and 31 December 2016 are as follows:

(Millions of United States dollars)

	31 December 2017	*31 December 2016*	*Change*	*Percentage*
Short-term investments	1 834.3	724.5	1 109.8	153.2
Equities	39 784.2	34 455.5	5 328.7	15.5
Fixed income	15 329.9	12 311.3	3 018.6	24.5
Real assets	4 213.8	3 796.1	417.7	11.0
Alternatives and other investments	2 403.4	1 663.8	739.6	44.5
Total investments	**63 565.6**	**52 951.2**	**10 614.4**	**20.0**

14. Total investments and cash and cash equivalents are as follows:

(Millions of United States dollars)

	31 December 2017	*31 December 2016*	*Change*	*Percentage*
Total investments	63 565.6	52 951.2	10 614.4	20.0
Cash and cash equivalents	971.8	1 562.5	(590.7)	(37.8)
Total investments and cash and cash equivalents	**64 537.4**	**54 513.7**	**10 023.7**	**18.4**

15. Total liabilities of the Fund as at 31 December 2017 were $411.3 million (2016: $237.6 million), reflecting an increase of $173.7 million (or 73.1 per cent). The increase in total liabilities was due primarily to an increase in payables for investments traded of $149.6 million and after-service health insurance liability of $17.2 million.

Actuarial situation of the Fund

16. The actuarial present value of accumulated (promised) plan benefits (which does not take into account future increases in pensionable remuneration) is determined by independent actuaries. The amount is derived by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

17. The actuarial present value of accumulated plan benefits as at 31 December 2017 is as follows:

(Millions of United States dollars)

	If future pension payments are made under the Regulations	
	Without pension adjustments	*With pension adjustments*
Actuarial value of vested benefits		
Participants currently receiving benefits	25 902	34 057
Vested terminated participants	742	1 279
Active participants	14 040	19 278
Total vested benefits	**40 684**	**54 614**
Non-vested benefits	921	1 165
Total actuarial present value of accumulated plan benefits	**41 605**	**55 779**

Financial statements for the year ended 31 December 2017

United Nations Joint Staff Pension Fund

I. Statement of net assets available for benefits

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016*
Assets			
Cash and cash equivalents	4	971 807	1 562 522
Investments	5, 6		
Short-term investments		1 834 280	724 509
Equities		39 784 228	34 455 474
Fixed income		15 329 947	12 311 322
Real assets		4 213 829	3 796 144
Alternatives and other investments		2 403 366	1 663 801
		63 565 650	**52 951 250**
Contributions receivable		6 939	13 824
Accrued income from investments	7	154 655	139 311
Receivable from investments traded	5	28 401	15 124
Withholding tax receivable	8	26 554	10 501
Other assets	9	23 194	33 237
Total assets		**64 777 200**	**54 725 769**
Liabilities			
Benefits payable	10	148 186	133 782
Payable from investments traded	5	157 699	8 138
After-service health insurance and other employee benefits liabilities	11	94 363	76 736
Other accruals and liabilities	12	11 044	18 987
Total liabilities		**411 292**	**237 643**
Net assets available for benefits		**64 365 908**	**54 488 126**

United Nations Joint Staff Pension Fund

II. Statement of changes in net assets available for benefits

(Thousands of United States dollars)

	Note	*For the year 2017*	*For the year 2016 (reclassified)*[a]
Investment income	13		
Net appreciation in fair value of investments		9 081 326	1 582 604
Interest income		361 742	325 786
Dividend income		865 788	821 651
Income from real assets		65 530	55 015
Less: transaction costs and management fees		(133 145)	(117 494)
		10 241 241	**2 667 562**
Contributions	14		
From participants		792 593	757 039
From member organization		1 577 151	1 506 193
Other contributions		31 168	10 266
		2 400 912	**2 273 498**
Other income	15	11 624	3 368
Benefit expenses	16		
From withdrawal settlements and full commutation benefits		194 803	117 395
From retirements benefits		2 479 573	2 391 291
Other benefits/adjustments		(1 106)	(2 151)
		2 673 270	**2 506 535**
Administrative expenses	17	97 400	74 764
Other expenses	18	2 807	1 282
Withholding tax expense	8	2 518	3 749
Increase in net assets available for benefits		**9 877 782**	**2 358 098**

[a] Refer to note 25 for details of the reclassifications.

United Nations Joint Staff Pension Fund

III. Cash flow statement

(Thousands of United States dollars)

	Note	*For the year 2017*	*For the year 2016*
Cash flows from investing activities			
Purchase of investments		(15 346 130)	(13 713 338)
Proceeds from sale/redemption of investments		13 933 105	13 052 796
Dividends received from equity investments, excluding withholding tax		839 462	795 134
Interest received from fixed income investments		345 952	335 544
Income received from unitized real asset funds, excluding withholding tax		65 506	55 765
Other income received/(losses incurred), net		11 611	3 129
Transaction costs, management fees and other expenses paid		(134 993)	(122 669)
Withholding taxes reimbursement		9 394	23 501
Net cash (used)/provided by investing activities		**(276 093)**	**429 862**
Cash flows from operating activities			
Contribution from member organizations and participants		2 401 970	2 298 646
Benefits payments		(2 656 307)	(2 598 579)
Net transfer to/from other plans		3 302	3 598
Administrative expenses paid		(72 501)	(59 520)
Other payments, net		(513)	(649)
Net cash used by operating activities		**(324 049)**	**(356 504)**
Net (decrease)/increase in cash and cash equivalents		(600 142)	73 358
Cash and cash equivalents at the beginning of year	4	1 562 522	1 488 132
Exchange gains on cash and cash equivalents		9 427	1 032
Cash and cash equivalents at the end of year	4	**971 807**	**1 562 522**

United Nations Joint Staff Pension Fund
Schedule I

IV. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the biennium 2016–2017

(Thousands of United States dollars)

	Revised appropriation			*Final appropriation*			*Actuals on a comparable basis*			*Variance*			
	2016–2017			*2016–2017*			*2016–2017*						
	Pension Fund	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Percentage*
A. Fund secretariat administrative expenses													
Posts	31 944.5	14 309.2	46 253.7	29 976.0	13 342.9	43 318.9	29 349.1	12 895.0	42 244.1	(626.9)	(447.9)	(1 074.8)	(2)
Other staff costs	7 752.3	283.2	8 035.5	11 537.5	522.8	12 060.3	11 088.9	399.0	11 487.9	(448.6)	(123.8)	(572.4)	(5)
Hospitality	6.2	–	6.2	6.2	–	6.2	–	–	–	(6.2)	–	(6.2)	(100)
Consultants	631.6	–	631.6	331.8	–	331.8	258.0	–	258.0	(73.8)	–	(73.8)	(22)
Travel of staff	1 025.2	–	1 025.2	924.9	–	924.9	694.1	–	694.1	(230.8)	–	(230.8)	(25)
Contractual services[a]	13 763.4	2 394.3	16 157.7	21 711.1	2 394.3	24 105.4	21 240.5	2 426.4	23 666.9	(470.6)	32.1	(438.5)	(2)
General operating expenses[b]	13 416.9	3 712.8	17 129.7	11 591.9	3 408.6	15 000.5	11 462.6	3 429.3	14 891.9	(129.3)	20.7	(108.6)	(1)
Supplies and materials	127.1	63.6	190.7	65.1	32.2	97.3	45.0	16.9	61.9	(20.1)	(15.3)	(35.4)	(36)
Furniture and equipment	1 329.7	618.4	1 948.1	496.6	201.7	698.3	326.3	98.8	425.1	(170.3)	(102.9)	(273.2)	(39)
Subtotal	**69 996.9**	**21 381.5**	**91 378.4**	**76 641.1**	**19 902.5**	**96 543.6**	**74 464.5**	**19 265.4**	**93 729.9**	**(2 176.6)**	**(637.1)**	**(2 813.7)**	**(3)**

United Nations Joint Staff Pension Fund
Schedule I (continued)

IV. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the biennium 2016–2017 (continued)

(Thousands of United States dollars)

	Revised appropriation			*Final appropriation*			*Actuals on a comparable basis*			*Variance*			
	2016–2017			*2016–2017*			*2016–2017*						
	Pension Fund	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Percentage*
B. Investment administrative expenses													
Posts	25 818.6	–	25 818.6	22 492.6	–	22 492.6	21 356.0	–	21 356.0	(1 136.6)	–	(1 136.6)	(5)
Other staff costs	2 968.2	–	2 968.2	1 839.1	–	1 839.1	1 054.3	–	1 054.3	(784.8)	–	(784.8)	(43)
Hospitality	27.5	–	27.5	27.5	–	27.5	1.0	–	1.0	(26.5)	–	(26.5)	(96)
Consultants	1 114.0	–	1 114.0	964.0	–	964.0	149.2	–	149.2	(814.8)	–	(814.8)	(85)
Travel of representatives	682.5	–	682.5	467.4	–	467.4	242.6	–	242.6	(224.8)	–	(224.8)	(48)
Travel of staff	1 460.6	–	1 460.6	877.2	–	877.2	585.9	–	585.9	(291.3)	–	(291.3)	(33)
Contractual services[a]	44 172.6	–	44 172.6	39 204.6	–	39 204.6	31 201.3	–	31 201.3	(8 003.3)	–	(8 003.3)	(20)
General operating expenses[b]	7 350.6	–	7 350.6	7 595.6	–	7 595.6	7 467.3	–	7 467.3	(128.3)	–	(128.3)	(2)
Supplies and materials	253.4	–	253.4	201.7	–	201.7	54.4	–	54.4	(147.3)	–	(147.3)	(73)
Furniture and equipment	960.7	–	960.7	960.7	–	960.7	619.2	–	619.2	(341.5)	–	(341.5)	(36)
Subtotal	**84 808.7**	**–**	**84 808.7**	**74 630.4**	**–**	**74 630.4**	**62 731.2**	**–**	**62 731.2**	**(11 899.2)**	**–**	**(11 899.2)**	**(16)**
C. Audit expenses													
External audit	655.4	131.1	[illegible]	655.4	131.1	786.5	655.2	131.1	786.3	(0.2)	–	(0.2)	(0)
Internal audit	1 763.5	352.7	2 116.2	1 698.5	339.7	2 038.2	1 548.7	309.8	1 858.5	(149.8)	(29.9)	(179.7)	(9)
Subtotal	**2 418.9**	**483.8**	**2 902.7**	**2 353.9**	**470.8**	**2 824.7**	**2 203.9**	**440.9**	**2 644.8**	**(150.0)**	**(29.9)**	**(179.9)**	**(6)**
D. Board expenses	965.6	–	965.6	965.6	–	965.6	825.2		825.2	(140.4)	–	(140.4)	(15)
Total administrative expenses	**158 190.1**	**21 865.3**	**180 055.4**	**154 591.0**	**20 373.3**	**174 964.3**	**140 224.8**	**19 706.3**	**159 931.1**	**(14 366.2)**	**(667.0)**	**(15 033.2)**	**(9)**

The purpose of schedule I is to compare budget to actual amounts for the biennium 2016–2017 on a comparable basis, i.e., actual amounts on the same basis as the budget. As the Pension Fund's budget is prepared on a modified cash basis and the actual costs on a comparable basis are consequently also shown on a modified cash basis, the total for actual costs on a comparable basis does not agree with the administrative expenses shown in the statement of changes in net assets, as that statement is prepared on an accrual basis.

[a] For the purpose of presentation, training resources under other staff costs in revised appropriation are moved to contractual services, in line with expenditure recording in Umoja. Fund secretariat: actuals include expenditure for the International Computing Centre ($12.3 million). Investment Management Division: actuals include expenditure for ex[illegible]nal legal consultants ($1.4 million), investment advisory services ([illegible] million) [illegible] custodial, electronic [illegible] and other [illegible] ($23.8 million).

[b] Includes re[illegible] maintenance [illegible] and other operating expenses.

United Nations Joint Staff Pension Fund
Schedule I (continued)

IV. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the biennium 2016–2017 (continued)

Explanation of significant differences (greater than +/-10 per cent) between budget and actual amounts on a comparable basis

A. Fund secretariat administrative expenses

Hospitality. The underexpenditure is the result of efforts to minimize hospitality costs.

Consultants. The underexpenditure is attributable primarily to the postponement of the consultancy services related to performance measurement, as the new format of the results-based framework will be introduced by the United Nations Secretariat in the following year.

Travel. The underexpenditure is due to lower-than-anticipated expenditure for travel and the replacement of certain staff travel with videoconferencing and teleconferencing.

Supplies, furniture and equipment. The underexpenditure is due to lower-than-anticipated requirements for supplies and materials and the postponement of selected replacement and rotational programmes until the next biennium.

B. Investment administrative expenses

Other staff costs. The underexpenditure is attributable primarily to a decrease in actual expenditure with respect to general temporary assistance compared with the budget amounts, owing to the difficulty of recruiting suitable candidates and the postponement of recruitment action until the completion of the target operating model study.

Hospitality. The underexpenditure is attributable to the holding of several meetings away from headquarters, which reduced hospitality costs.

Consultants. The underexpenditure is attributable primarily to the postponement of data management and technical writer consultancy services pending the outcome of the target operating model study, and to lower-than-anticipated costs for consulting studies.

Travel. The underexpenditure is attributable primarily to a decrease in the travel of representatives, owing to attendance by a lower-than-anticipated number of members at meetings of the Investments Committee; and to lower-than-anticipated expenditure for the travel of staff, owing largely to the fact that, apart from ensuring business continuity and work priorities, the Investment Management Division is still moving towards a full staffing complement and is taking advantage of increasingly cost-efficient technological advances in information dissemination and interconnectivity.

Contractual services. The underexpenditure in investment advisory services, custodial services and external legal consultants is due to restructuring and a reduction in non-discretionary advisory services, a decrease in costs for custodial services and less-than-anticipated costs of legal services. The underexpenditure in electronic data processing services is primarily a result of the postponement of several business application acquisitions until the completion of the target operating model study.

Supplies, furniture and equipment. The underexpenditure is attributable primarily to lower-than-anticipated expenditure for the acquisition of software, owing to the decision to postpone some information-technology-related projects, and for office supplies, owing to the continued effort to find less expensive alternatives.

C. Board expenses

The underexpenditure is attributable mainly to lower-than-anticipated expenditure related to the travel of representatives, owing in particular to the holding of two meetings associated with the Committee of Actuaries back to back, thus saving an extra trip.

United Nations Joint Staff Pension Fund
Schedule II

V. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the year ended 31 December 2017

(Thousands of United States dollars)

	Revised appropriation 2017			*2016 budget balance carried forward*			*Revision to appropriation*			*Final budget 2017*		
	Pension Fund	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*
A. Fund secretariat administrative expenses												
Posts	16 048.8	7 190.9	23 239.7	1 608.4	886.0	2 494.4	(1 968.5)	(966.3)	(2 934.8)	15 688.7	7 110.6	22 799.3
Other staff costs	4 249.9	141.6	4 391.5	(690.8)	(108.7)	(799.5)	3 785.2	239.6	4 024.8	7 344.3	272.5	7 616.8
Hospitality	3.1	–	3.1	3.1	–	3.1	–	–	–	6.2	–	6.2
Consultants	318.9	–	318.9	146.6	(0.8)	145.8	(299.8)	–	(299.8)	165.7	(0.8)	164.9
Travel of staff	523.2	–	523.2	132.6	(7.2)	125.4	(100.3)	–	(100.3)	555.5	(7.2)	548.3
Contractual services	6 404.3	1 161.0	7 565.3	1 093.0	84.0	1 177.0	7 947.7	–	7 947.7	15 445.0	1 245.0	16 690.0
General operating expenses	6 741.2	1 872.5	8 613.7	2 219.8	317.4	2 537.2	(1 825.0)	(304.2)	(2 129.2)	7 136.0	1 885.7	9 021.7
Supplies and materials	63.6	31.8	95.4	46.9	26.9	73.8	(62.0)	(31.4)	(93.4)	48.5	27.3	75.8
Furniture and equipment	577.8	278.3	856.1	628.9	326.7	955.6	(833.1)	(416.7)	(1 249.8)	373.6	188.3	561.9
Subtotal	**34 930.8**	**10 676.1**	**45 606.9**	**5 188.5**	**1 524.3**	**6 712.8**	**6 644.2**	**(1 479.0)**	**5 165.2**	**46 763.5**	**10 721.4**	**57 484.9**

United Nations Joint Staff Pension Fund
Schedule II (continued)

V. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the year ended 31 December 2017 (continued)

(Thousands of United States dollars)

	Revised appropriation 2017			*2016 budget balance carried forward*			*Revision to appropriation*			*Final budget 2017*		
	Pension Fund	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*
B. Investment administrative expenses												
Posts	12 942.9	–	12 942.9	2 466.2	–	2 466.2	(3 326.0)	–	(3 326.0)	12 083.1	–	12 083.1
Other staff costs	1 508.6	–	1 508.6	1 097.1	–	1 097.1	(1 129.1)	–	(1 129.1)	1 476.6	–	1 476.6
Hospitality	13.2	–	13.2	13.9	–	13.9	–	–	–	27.1	–	27.1
Consultants	635.7	–	635.7	329.4	–	329.4	(150.0)	–	(150.0)	815.1	–	815.1
Travel of representatives	341.2	–	341.2	215.1	–	215.1	(215.1)	–	(215.1)	341.2	–	341.2
Travel of staff	575.2	–	575.2	583.5	–	583.5	(583.4)	–	(583.4)	575.3	–	575.3
Contractual services	22 415.1	–	22 415.1	10 215.6	–	10 215.6	(4 968.0)	–	(4 968.0)	27 662.7	–	27 662.7
General operating expenses	3 687.0	–	3 687.0	(237.2)	–	(237.2)	245.0	–	245.0	3 694.8	–	3 694.8
Supplies and materials	126.7	–	126.7	93.1	–	93.1	(51.7)	–	(51.7)	168.1	–	168.1
Furniture and equipment	127.8	–	127.8	686.8	–	686.8	–	–	–	814.6	–	814.6
Subtotal	**42 373.4**	**–**	**42 373.4**	**15 463.5**	**–**	**15 463.5**	**(10 178.3)**	**–**	**(10 178.3)**	**47 658.6**	**–**	**47 658.6**
C. Audit expenses												
External audit	327.7	65.6	393.3	0.1	–	0.1	–	–	–	327.8	65.6	393.4
Internal audit	861.6	172.3	1 033.9	133.2	28.8	162.0	(65.0)	(13.0)	(78.0)	929.8	188.1	1 117.9
Subtotal	**1 189.3**	**237.9**	**1 427.2**	**133.3**	**28.8**	**162.1**	**(65.0)**	**(13.0)**	**(78.0)**	**1 257.6**	**253.7**	**1 511.3**
D. Board expenses	488.9	–	488.9	59.7	–	59.7	–	–	–	548.6	–	548.6
Total administrative expenses	**78 982.4**	**10 914.0**	**89 896.4**	**20 845.0**	**1 553.1**	**22 398.1**	**(3 599.1)**	**(1 492.0)**	**(5 091.1)**	**96 228.3**	**10 975.1**	**107 203.4**

United Nations Joint Staff Pension Fund
Schedule II (continued)

V. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the year ended 31 December 2017 (continued)

(Thousands of United States dollars)

	Final budget 2017			*Actuals on a comparable basis*			*Variance*			
	Pension Fund	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Percentage*
A. Fund secretariat administrative expenses										
Posts	15 688.7	7 110.6	22 799.3	15 061.8	6 662.7	21 724.5	(626.9)	(447.9)	(1 074.8)	(5)
Other staff costs	7 344.3	272.5	7 616.8	6 895.7	148.7	7 044.4	(448.6)	(123.8)	(572.4)	(8)
Hospitality	6.2	–	6.2	–	–	–	(6.2)	–	(6.2)	(100)
Consultants	165.7	(0.8)	164.9	91.9	(0.8)	91.1	(73.8)	–	(73.8)	(45)
Travel of staff	555.5	(7.2)	548.3	324.7	(7.2)	317.5	(230.8)	–	(230.8)	(42)
Contractual services[a]	15 445.0	1 245.0	16 690.0	14 974.4	1 277.1	16 251.5	(470.6)	32.1	(438.5)	(3)
General operating expenses[b]	7 136.0	1 885.7	9 021.7	7 006.7	1 906.4	8 913.1	(129.3)	20.7	(108.6)	(1)
Supplies and materials	48.5	27.3	75.8	28.4	12.0	40.4	(20.1)	(15.3)	(35.4)	(47)
Furniture and equipment	373.6	188.3	561.9	203.3	85.4	288.7	(170.3)	(102.9)	(273.2)	(49)
Subtotal	**46 763.5**	**10 721.4**	**57 484.9**	**44 586.9**	**10 084.3**	**54 671.2**	**(2 176.6)**	**(637.1)**	**(2 813.7)**	**(5)**
B. Investment administrative expenses										
Posts	12 083.1	–	12 083.1	10 946.5	–	10 946.5	(1 136.6)	–	(1 136.6)	(9)
Other staff costs	1 476.6	–	1 476.6	691.8	–	691.8	(784.8)	–	(784.8)	(53)
Hospitality	27.1	–	27.1	0.6	–	0.6	(26.5)	–	(26.5)	(98)
Consultants	815.1	–	815.1	0.3	–	0.3	(814.8)	–	(814.8)	(100)
Travel of representatives	341.2	–	341.2	116.4	–	116.4	(224.8)	–	(224.8)	(66)
Travel of staff	575.3	–	575.3	284.0	–	284.0	(291.3)	–	(291.3)	(51)
Contractual services[a]	27 662.7	–	27 662.7	19 659.4	–	19 659.4	(8 003.3)	–	(8 003.3)	(29)
General operating expenses[b]	3 694.8	–	3 694.8	3 566.5	–	3 566.5	(128.3)	–	(128.3)	(3)
Supplies and materials	168.1	–	168.1	20.8	–	20.8	(147.3)	–	(147.3)	(88)
Furniture and equipment	814.6	–	814.6	473.1	–	473.1	(341.5)	–	(341.5)	(42)
Subtotal	**47 658.6**	**–**	**47 658.6**	**35 759.4**	**–**	**35 759.4**	**(11 899.2)**	**–**	**(11 899.2)**	**(25)**

United Nations Joint Staff Pension Fund
Schedule II (continued)

V. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the year ended 31 December 2017 (continued)

(Thousands of United States dollars)

	Final budget 2017			*Actuals on a comparable basis*			*Variance*			
	Pension Fund	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Pension Fund*	*United Nations*	*Total*	*Percentage*
C. Audit expenses										
External audit	327.8	65.6	393.4	327.6	65.6	393.2	(0.2)	–	(0.2)	(0)
Internal audit	929.8	188.1	1 117.9	780.0	158.2	938.2	(149.8)	(29.9)	(179.7)	(16)
Subtotal	**1 257.6**	**253.7**	**1 511.3**	**1 107.6**	**223.8**	**1 331.4**	**(150.0)**	**(29.9)**	**(179.9)**	**(12)**
D. Board expenses	**548.6**	–	**548.6**	**408.2**	–	**408.2**	**(140.4)**	–	**(140.4)**	**(26)**
Total administrative expenses	**96 228.3**	**10 975.1**	**107 203.4**	**81 862.1**	**10 308.1**	**92 170.2**	**(14 366.2)**	**(667.0)**	**(15 033.2)**	**(14)**

The purpose of schedule II is to compare budget to actual amounts on a comparable basis, i.e., actual amounts on the same basis as the budget. As the Pension Fund's budget is prepared on a modified cash basis and the actual costs on a comparable basis are consequently also shown on a modified cash basis, the total for actual costs on a comparable basis does not agree with the administrative expenses shown in the statement of changes in net assets, as that statement is prepared on an accrual basis. A reconciliation of the differences is provided in note 22.2.

[a] Fund secretariat: actuals include expenditure for the International Computing Centre ($7.1 million). Investment Management Division: actuals include expenditure for external legal consultants ($0.8 million), investment advisory services ($3.4 million) and custodial, electronic data processing and other services ($15.4 million).

[b] Includes rental and maintenance of premises and other operating expenses.

United Nations Joint Staff Pension Fund

Notes to the financial statements

Note 1
Description of the plan

1. The following is a brief description of the United Nations Joint Staff Pension Fund. The Regulations and Administrative Rules of the Pension Fund are available at the Fund's website (www.unjspf.org).

1.1 General

2. The Pension Fund was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and the other international organizations admitted to membership in the Fund. The Fund is a multiple-employer defined benefit plan. There are currently 23 member organizations participating in the Fund. All participating organizations and employees contribute to the Fund on the basis of pensionable remuneration. The contribution rate is a fixed rate of 7.9 per cent for participants and 15.8 per cent for employers (see also note 3.5).

3. The Fund is governed by a Pension Board made up of: (a) 12 members appointed by the United Nations Staff Pension Committee, of whom 4 are elected by the General Assembly, 4 are appointed by the Secretary General and 4 are elected by the participants in service in the United Nations; and (b) 21 members appointed by the staff pension committees of the other member organizations in accordance with the rules of procedure of the Fund, of whom 7 are chosen by the bodies of the member organizations corresponding to the General Assembly, 7 are appointed by the chief administrative officers of the member organizations and 7 are chosen by the participants in service.

1.2 Administration of the Fund

4. The Fund is administered by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization, and a secretariat to the Board and to each such committee.

5. The Chief Executive Officer of the Fund also serves as Secretary of the Pension Board. The Secretary/Chief Executive Officer is appointed by the Secretary-General on the recommendation of the Pension Board.

6. The Chief Executive Officer is responsible for the administration of the Pension Fund and for the observance, by all concerned, of the Regulations, Rules and Pension Adjustment System of the Fund. This includes responsibility for the establishment of policy; the administration of the Fund's operations and the overall supervision of its staff; the responsibility for the organization, servicing and participation of the Fund secretariat in the meetings of the Pension Board, its Standing Committee, the Audit Committee, the Committee of Actuaries, the Assets and Liabilities Monitoring Committee and other related bodies; the responsibility for representing the Board at meetings of the Fifth Committee of the General Assembly, the Advisory Committee on Administrative and Budgetary Questions, the International Civil Service Commission and any other pertinent bodies; and serving as Secretary of the United Nations Staff Pension Committee. The Chief Executive Officer is responsible for providing a range of administrative functions to support the Investment Management Division. In accordance with article 7 (c) of the Regulations of the Fund, in the absence of the Chief Executive Officer, the Deputy Chief Executive Officer shall perform the functions of the Chief Executive Officer.

7. The investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with the Investments Committee and in the light of observations and suggestions made from time to time by the Board on the investments policy. The Secretary-General has delegated his authority and responsibility to act on his behalf in all matters involving his fiduciary duties related to the investment of the assets of the Fund to the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund. The Representative shall arrange for the maintenance of detailed accounts of all investments and other transactions relating to the Fund, which shall be open to examination by the Board.

8. The Chief Financial Officer reports to the Chief Executive Officer and to the Representative of the Secretary-General in their respective substantive responsibilities. The Chief Financial Officer is responsible for formulating financial policy for the Fund, reviewing budgetary, financial and accounting operations of the Pension Fund and ensuring that an adequate financial control environment of the Fund is in place to protect the Fund's resources and guarantees the quality and reliability of financial reporting. Additionally, the Chief Financial Officer is responsible for setting the rules for the collection, from the different information systems and areas of the Fund, of the financial and accounting data necessary for the preparation of the Fund's financial statements, and has full access to such systems and data. The Chief Financial Officer ensures that the financial statements are in compliance with the Regulations and Rules of the Fund and the accounting standards adopted by the Fund, as well as the decisions of the Pension Board and the General Assembly. The Chief Financial Officer also certifies the Fund's financial statements.

1.3 Participation in the Fund

9. Members of the staff of each of the 23 member organizations of the Fund become participants in the Fund upon commencing employment under an appointment for six months or longer or upon completion of six months' service without an interruption of more than 30 days. As at 31 December 2017, the Fund had active contributors (participants) from Member organizations/agencies including the United Nations Secretariat, the United Nations Children's Fund, the United Nations Development Programme and the Office of the United Nations High Commissioner for Refugees, as well as the various specialized agencies, such as the World Health Organizations, the International Labour Organization, the International Atomic Energy Agency, the International Civil Aviation Organization and the United Nations Educational, Scientific and Cultural Organization (see the annex to the present notes for a complete list of member organizations). There are currently periodic benefits paid to individuals in some 190 countries (See the annex to the present notes for details). The total annual pension expenses are approximately $2.7 billion and are paid in 15 different currencies.

1.4 Operation of the Fund

10. Participant and beneficiary processing and queries are handled by operations of the Fund secretariat [illegible] offices located in New York and Geneva. All the accounting for operations is handled in New York by centralized financial services. The centralized financial services of the Fund secretariat also manages the receipt of monthly contributions from member organizations and the payments of the monthly pension payroll.

11. The Representative of the Secretary-General is assisted by the staff of the Investment Management Division where investments are actively traded and processed and investment transactions are reconciled and accounted for.

1.5 Actuarial valuation of the Fund

12. Article 12 of the Regulations of the Fund (see JSPB/G.4/Rev.22) provides that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years. The Fund is performing actuarial valuations every two years and intends to continue doing so in the future. Article 12 further provides that the actuarial report shall state the assumptions on which the calculations are based, describe the methods of valuation used and state the results, as well as the recommendations, if any, for appropriate action. See note 19 for a summary of the actuarial situation of the Fund as at 31 December 2017.

1.6 Retirement benefit

13. Any participant who has five years of contributory service receives, upon separation at or after normal retirement age, a retirement benefit payable for the remainder of his or her life. "Normal retirement age" means age 60 for a participant whose service commenced prior to 1 January 1990, age 62 for a participant whose service commenced or recommenced on or after 1 January 1990 and age 65 for a participant whose service commenced or recommenced on or after 1 January 2014.

14. The standard annual rate of retirement benefit for a participant who entered the Fund on or after 1 January 1983 is the sum of:

(a) 1.5 per cent of final average remuneration multiplied by the first five years of contributory service;

(b) 1.75 per cent of final average remuneration multiplied by the next five years of contributory service;

(c) 2 per cent of final average remuneration multiplied by the next 25 years of contributory service;

(d) The years of contributory service in excess of 35 and performed as from 1 July 1995, by 1 per cent of the final average remuneration, subject to a maximum total accumulation rate of 70 per cent.

15. The standard annual rate of retirement benefit for a participant who entered the Fund prior to 1 January 1983 is 2 per cent of final average remuneration multiplied by contributory service not exceeding 30 years, plus 1 per cent of final average remuneration multiplied by such service in excess of 30 years, not exceeding 10 years.

16. The maximum benefit to participants, subject to the terms specified in the Regulations and Rules of the Fund, is the greater of 60 per cent of pensionable remuneration at the date of separation or the maximum benefit that would be payable, at that date, to a participant at the D-2 level (who has been at the top step for the preceding five years).

17. The retirement benefit shall, however, be payable at the minimum annual rate, obtained by multiplying the years of the participant's contributory service, not exceeding 10, by the smaller of $1,072.22 (effective 1 April 2017, subject to subsequent adjustments in accordance with the movement of the United States of America consumer price index (CPI) under the pension adjustment system) or one thirtieth of the final average remuneration.

18. The annual rate of the retirement benefit shall, nevertheless, not be less, when no other benefit is payable on account of the participant, than the smaller of $1,705.44 (effective 1 April 2017, subject to subsequent adjustments in accordance with the movement of the United States CPI under the pension adjustment system) or the final average remuneration of the participant.

19. "Final average remuneration" means the average annual pensionable remuneration of a participant during the 36 completed months of highest pensionable remuneration within the last five years of contributory service.

20. A participant may, except in the case where a minimum benefit is payable and he or she does not waive the rights thereto, elect to receive: (a) if the retirement benefit is $300 per annum or more, a lump sum not greater than the larger of one third of the actuarial equivalent of the retirement benefit (not exceeding the maximum amount payable to a participant then retiring at normal retirement age, with final average remuneration equal to the pensionable remuneration for the top step of the P-5 level) or the amount of the participant's own contributions at retirement, and the participant's retirement benefit is then reduced accordingly; or (b) if the participant's retirement benefit is less than $1,000 per annum, the lump sum actuarial equivalent of the full retirement benefit, including the prospective spouse's benefit, if any, if the participant so elects.

Early retirement

21. An early retirement benefit is payable to a participant whose age on separation is at least 55 (58 for a participant whose participation commenced on or after 1 January 2014) but less than the normal retirement age and who has five years or more of contributory service at separation.

22. The early retirement benefit for a participant whose participation commenced prior to 1 January 2014 is payable at the standard annual rate for a retirement benefit reduced by 6 per cent for each year between the retirement date and normal retirement age, except that: (a) if the participant has completed 25 but less than 30 years of contributory service at the date of retirement, the part of the benefit for service before 1 January 1985 is reduced by 2 per cent a year, and the remaining part of the benefit is reduced by 3 per cent a year; or (b) if the participant has completed 30 or more years of contributory service at the date of retirement, the benefit is reduced by 1 per cent a year, provided, however, that the rate in (a) or (b) applies to no more than five years. The methodology of calculation of the early retirement benefits for employees participating on or after 1 January 2014 is detailed in article 29 of the Regulations and Administrative Rules of the Fund.

23. The early retiree may elect to receive a lump sum on the same terms as for a retirement benefit.

Separation from service prior to eligibility for early retirement

24. A deferred retirement benefit is payable to a participant whose age on separation is less than normal retirement age and who has five years or more of contributory service at separation. The deferred retirement benefit is payable at the standard rate for a retirement benefit and commences at normal retirement age. The participant may elect to have the benefit commence at any time once the participant becomes eligible to receive an early retirement benefit from the Fund on the same terms as for an early retirement benefit.

25. A withdrawal settlement is payable to a participant separating from service before normal retirement age or on or after normal retirement age if the participant is not entitled to a future retirement benefit. The participant receives his or her own contributions increased by 10 per cent for each year of contributory service in excess of five years, to a maximum increase of 100 per cent.

1.7 Disability benefit

26. A disability benefit is payable to a participant incapacitated for further service for a period likely to be permanent or of long duration.

27. The disability benefit is payable at the standard or minimum annual rate for a retirement benefit if the participant is at least normal retirement age at disability. If the participant is under normal retirement age, it is payable at the rate of the retirement benefit to which the participant would have been entitled if he or she had remained in service until normal retirement age and his or her final average remuneration had remained unchanged.

28. The annual rate of the benefit shall, notwithstanding the above, not be less, when no other benefit is payable on account of the participant, than the smaller of $2,839.80 (effective 1 April 2017, subject to subsequent adjustments in accordance with the movement of the United States CPI under the pension adjustment system) or the final average remuneration of the participant.

1.8 Survivor benefit

29. A benefit is payable to a surviving spouse of a participant who was entitled to a retirement, early retirement, deferred retirement or disability benefit at the date of his or her death or who died in service if they were married at the time of separation and remained married at the time of death. Certain limitations on eligibility apply in cases of divorced surviving spouses. The surviving spouse's benefit is generally payable at half the amount of the participant's retirement or disability benefit and is subject to certain minimum levels.

1.9 Child benefit

30. A child benefit is payable to each child under the age of 21 of a participant who is entitled to a retirement, early retirement or disability benefit or who has died in service, while the child remains under 21. The benefit may also be payable in certain circumstances to a child who is over the age of 21, such as when the child is found to have been incapacitated for substantial gainful employment. The child benefit for each child is generally one third of any retirement or disability benefit due to a participant or that would have been due in the case of a participant who died in service, subject to certain minimum amounts and also limited in terms of maximum amount. In addition, there are certain total maximum amounts that apply in cases of multiple children of the same participant.

1.10 Other benefits

31. Other benefits include the secondary dependant benefit and the residual settlement benefit. A full description of those benefits is available in the Regulations and Administrative Rules of the Fund.

1.11 Pension adjustment system

32. The provisions of the Fund's pension adjustment system provide for periodic cost-of-living adjustments in benefits. In addition, for participants who retire in a country whose currency is not the United States dollar, the current pension adjustment system is intended to ensure that, subject to certain minimum and maximum provisions, a periodic benefit never falls below the "real" value of its United States dollar amount, as determined under the Regulations, Administrative Rules and Pension Adjustment System of the Fund, and preserves its purchasing power as initially established in the currency of the recipient's country of residence. This is

achieved by establishing a dollar base amount and a local currency base amount (the two-track system).

33. The "real" value of a United States dollar amount is that amount adjusted over time for movements of the United States CPI, while the purchasing power of a recipient's benefit, once established in local currency, is preserved by adjusting it to follow movements of the CPI in his or her country of residence.

1.12 Funding policy

34. As a condition of participation in the Fund, participants are required to contribute 7.9 per cent of their pensionable remuneration to the plan and earn interest at a rate of 3.25 per cent per year in accordance with article 11 (c) of the Regulations of the Fund. The participants' contributions for the years ended 31 December 2017 and 31 December 2016 were $792.6 million and $757.0 million, respectively. The contribution figures do not include interest on the contributions.

35. Under the funding policy, member organizations are to make contributions on an estimated monthly basis and then to reconcile these estimated amounts in an annual year-end process. The contributions of member organizations are also expressed as a percentage of the participants' pensionable remuneration as defined in article 51 of the Regulations of the Fund. The contribution rate for member organizations is currently 15.8 per cent; these contributions to the Fund totalled $1,577.2 million and $1,506.6 million during calendar years 2017 and 2016, respectively. When combined with the contributions of participant and expected investment returns, total funding is estimated to be sufficient to provide for the benefits of all employees by the time they retire.

36. The assets of the Fund are derived from:

(a) The contributions of the participants;

(b) The contributions of the member organizations;

(c) The yield from the investments of the Fund;

(d) Deficiency payments, if any, under article 26 of the Regulations;

(e) Receipts from any other source.

1.13 Plan termination terms

37. Membership in the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Board, following application for termination by a member organization or continued default by an organization in its obligations under the Regulations.

38. In the event of such termination, a proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund on such date, pursuant to an arrangement mutually agreed between such organization and the Board.

39. The amount of the proportionate share shall be determined by the Board after an actuarial valuation of the assets and liabilities of the Fund.

40. In the event that an actuarial valuation of the Fund shows that its assets may not be sufficient to meet its liabilities under the Regulations, there shall be paid into the Fund by each member organization the sum necessary to make good the deficiency.

41. Each member organization shall contribute to this sum an amount proportionate to the total contributions which each paid under article 25 during the three years preceding the valuation date.

42. The contribution of an organization admitted to membership less than three years prior to the valuation date shall be determined by the Board.

1.14 Changes in funding policy and plan terminations terms during the reporting period

43. There were no changes in the funding policy or plan termination terms during the reporting period.

Note 2
General information

2.1 Basis of presentation

44. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) as issued by the International Public Sector Accounting Standards Board. The Pension Fund adopted IPSAS as of 1 January 2012. This also specifically included the adoption of International Accounting Standard (IAS) 26, Accounting and reporting by retirement benefit plans, of the International Financial Reporting Standards. While IAS 26 provides accounting guidance, it also offers direction on the presentation of financial statements, as it requires the presentation of a statement of net assets available for benefits and a statement of changes in net assets available for benefits. As the Fund has incorporated the guidance in IAS 26 into its financial policies, the presentation of its financial statements is based on this guidance. On a voluntary basis and at the request of the Board of Auditors, the Fund has also presented cash flow statements on a comparative basis in accordance with IPSAS 2, Cash flow statements, since 2016. Additional information is presented where requested by IPSAS standards. For instance, as required by IPSAS 24, Presentation of budget information in financial statements, the Fund has included in its financial statements a comparison of budget and actual amounts on a comparable basis and a reconciliation between the actual amounts on a comparable basis (see note 22). While IPSAS 24 states that the actual cost on a comparable basis should be reconciled to the cash flows from operating, investing and financing activities as presented in the cash flow statement, management has decided to reconcile these amounts to the administrative expenses recognized in the statement of changes in net assets. This is due to the fact that the Fund's budget is limited to the administrative expenses incurred in a biennium.

45. The financial statements are prepared on an annual basis. The financial statements are presented in United States dollars, and all values are rounded to the nearest thousand United States dollars except where otherwise indicated.

2.2 Significant standards, interpretations and amendments during the year

46. In July 2016, the IPSAS Board issued IPSAS 39, Employee benefits. IPSAS 39 supersedes the requirements set out in IPSAS 25, Employee benefits. The significant changes introduced in IPSAS 39 as compared with IPSAS 25 are: the removal of an option that allowed an entity to defer the recognition of changes in the net defined benefit liability (the "corridor approach"); the introduction of the net interest approach for defined benefit plans; and the amendment of certain disclosure requirements for defined benefit plans and multi-employer plans. The standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Fund recognizes actuarial gain and loss as expense;

accordingly, the implementation of IPSAS 39 was not expected to have material impact on the Fund's financial position. The Fund is currently evaluating the impact of changes in disclosure requirements on the adoption of this accounting standard on 1 January 2018.

47. In January 2017, the IPSAS Board issued IPSAS 40, Public sector combinations. IPSAS 40 addresses accounting for combinations of entities and operations. The standard classifies public sector combinations as either amalgamations or acquisitions. For amalgamations, IPSAS 40 requires use of the modified-pooling-of-interests method of accounting, in which the amalgamation is recognized on the date it takes place at carrying values of assets and liabilities. For acquisitions, IPSAS 40 requires use of the "acquisition" method of accounting, in which the acquisition is recognized on the date it takes place. The acquirer recognizes, separately from any goodwill recognized, the identifiable assets acquired and liabilities assumed at acquisition date fair value. The standard is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. IPSAS 40 will be applicable for combinations of entities and operations from 1 January 2019; accordingly, the Fund does not expect any impact on its financial statements upon the adoption of this accounting standard.

48. Other accounting standards and amendments to the existing standards that have been issued by the IPSAS Board are expected either not to have any impact or to have immaterial impact on the Fund's financial statements.

2.3 Other general information

49. The Fund compiles its financial statements with data collected from three main areas. For operational activities (contributions and payment of benefits), the Fund maintains its own records and systems. For investment activities, the Fund receives a monthly general ledger feed from the independent master record keeper collected and reconciled from source data provided by the Investment Management Division, global custodians and fund managers. For its administrative expenses, the Fund utilizes systems of the United Nations (Umoja) to record and compile its administrative expense activity. Umoja provides information on a modified cash basis, which is subsequently restated to a full accrual basis by the Fund. Some of the administrative expenses of the Fund, including costs associated with the administrative tasks of the United Nations Staff Pension Committee performed by the Fund on behalf of the United Nations, are reimbursed by the United Nations under the terms of a cost-sharing arrangement. Consequently, the Fund has decided to reflect the reimbursement by the United Nations as a reduction of its administrative expenses, subsequently converted in full accrual accounting in accordance with IPSAS requirements.

Note 3
Significant accounting policies

3.1 Cash and cash equivalents

50. Cash and cash equivalents are held at nominal value and include cash on hand, cash held with external managers and short-term, highly liquid time deposits held with financial institutions with maturities of three months or less from the date of acquisition.

3.2 Investments

3.2.1 Classification of investments

51. All investments of the Fund are designated at fair value through surplus and deficit. Consequently, the Fund's investments are carried and reported at fair value on the statement of net assets available for benefits, with changes in fair value recognized in the statement of changes in net assets available for benefits. Purchases and sales of securities are recorded on trade date basis. The designation and classification of the investments are carried out at initial recognition and reassessed at each reporting date.

52. Any transaction costs arising as part of an investment trade designated at fair value are expensed and recognized in the statement of changes in net assets.

53. The Fund classifies its investments into the following categories:

- Short-term investments (including fixed-income investments maturing more than three months but less than one year from the date of acquisition)
- Equities (including exchange-traded funds, common and preferred stocks, stapled securities and publicly traded real estate investment trusts)
- Fixed income (including fixed-income investments maturing more than one year from the acquisition date)
- Real assets (including investments in funds where the underlying assets are real assets such as real properties, infrastructure assets, timber and agriculture)
- Alternative and other investments (including investments in private equity funds, and commodity funds)

3.2.2 Valuation of financial instruments

54. The Fund uses the established and documented process of its independent master record keeper for determining fair values, which is reviewed and validated by the Fund at the reporting date. Fair value is based on quoted market prices where available. If fair market value is not available, valuation techniques are used.

55. Investments in certain commingled funds, private equity and private real estate investment funds are not quoted in an active market and therefore may not have a readily determinable fair market value. However, the fund managers generally report investments of the funds on a fair value basis. Therefore, the Fund determines fair value using the net asset value information as reported by the investee fund managers in the latest available quarterly capital account statements, adjusted by any cash flows not included in the latest net asset value reported by the investee fund manager. For financial assets and liabilities not designated at fair value through surplus and deficit, the carrying value approximates fair value.

3.2.3 Interest and dividend income

56. Interest income is recognized on a time-proportionate basis. It includes interest income from cash and cash equivalents and short-term and fixed-income investments.

57. Dividend income is recognized on the ex-dividend date when the right to receive payment is established.

3.2.4 Income from real assets and alternative investments

58. Income distributed from unitized funds is treated as income in the period in which they are earned.

3.2.5 *Receivable/payable from/to investments traded*

59. Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the date of the statement of net assets available for benefits. These amounts are recognized at the amount expected to be paid or received to settle the balance. Distributions from real assets and alternative fund investments declared but not received prior to year-end are also included under receivables from investments traded, to the extent the latest available net asset value of the fund that declares a distribution has recognized the distribution to be made.

60. Impairment of receivables from investments traded is recorded when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganization, and default in payments are considered indicators that the receivable from investments traded is impaired.

3.3 Tax status and withholding tax receivables

61. The Fund's portfolio comprises direct investments and indirect investments. Indirect investments are typically through an investment vehicle such as real estate investment trusts, exchange traded funds, limited liability partnerships or depositary receipts. The Fund is exempt from national taxation of Member States in accordance with Article 105 of the Charter of the United Nations and with article II, section 7 (a), of the Convention on the Privileges and Immunities of the United Nations.

62. For direct investments, some Member States grant relief at source for the Fund's investment-related transactions and income from investments, whereas other Member States continue to withhold taxes and reimburse the Fund upon the filing of a claim. In these instances, the Fund's custodians file claims to the governmental taxing authorities for refunds on behalf of the Fund. Taxes withheld on direct investments are initially recognized as "withholding tax receivable" in the statement of net assets available for benefits. After initial recognition, if there is objective evidence that the taxes are not recoverable, the carrying amount of the asset is reduced through the use of an allowance account. Any amount considered to be unrecoverable is recognized in the statement of changes in net assets available for benefits and is included under "withholding tax expense". At end of the year, the Fund measures its withholding tax receivable at the amount deemed recoverable.

63. For indirect investments, the investment vehicle is typically a taxable entity and the Fund is not directly responsible for any tax; furthermore, the taxes incurred by the investment vehicle can seldom be attributed to the Fund other than investment in depositary receipts. Taxes attributed to the Fund on indirect investments are recognized in the statement of changes in net assets available for benefits and are included under "withholding tax expense". To the extent the Fund is subsequently virtually certain that the taxes will be recovered, the amount is recognized as "withholding tax receivable" in the statement of net assets available for benefits.

64. The Fund also incurs cost on account of certain taxes that are based on the value of the transaction. Transaction-based taxes include stamp duty, security transaction tax and financial transaction tax, among others. Transaction-based taxes are recognized in the statement of changes in net assets available for benefits and are included under "other transaction costs". To the extent the Fund is subsequently virtually certain that the taxes will be recovered, the amount is recognized as "other receivable" in the statement of net assets available for benefits.

3.4 Critical accounting estimates

65. Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

Fair value of financial instruments

66. The Fund may hold financial instruments that are not quoted in active markets. The fair values of such instruments are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed and modified as required. Valuation models are calibrated by back-testing to actual transactions to ensure that outputs are reliable.

67. The fair value of financial instruments not quoted in an active market may also be determined by the Fund using reputable pricing sources (such as pricing agencies) or indicative prices from bond/debt market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. The Fund exercises judgment on the quantity and quality of pricing sources used. Where no market data is available, the Fund may value financial instruments using internal valuation models, which are usually based on valuation methods and techniques generally recognized as standard within the industry.

68. Valuation models are created using observable data to the extent practicable. However, in areas such as credit risk (of both the Fund and the counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

69. The determination of what constitutes "observable" requires significant judgment by the Fund. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Taxes

70. Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on withholding tax. Given the wide range of international investments, differences arising between the actual income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded.

Impairment

71. The annual review to assess potential impairment is another area where the Fund exercises significant judgment.

Provision for the Fund's non-investment-related receivables

72. A provision is established to reflect the position of the accounts receivable for all non-performing overpayments of pension benefits that are two years or older as of the respective year-end date of the financial statements.

Actuarial assumptions

73. The Fund uses actuarial methods for the disclosure of employee benefits liabilities. The related assumptions are disclosed in note 11 in respect of after-service health insurance and other employee benefits of the staff of the Fund. Note 19 contains information on assumptions used for the actuarial liability to the beneficiaries of the Fund.

3.5 Contributions

74. Contributions are recorded on an accrual basis. Participants and their employing member organizations are required to contribute 7.9 per cent and 15.8 per cent, respectively, of their pensionable remuneration to the Fund. Each month, the Fund accrues a receivable amount for contributions expected. When contributions are actually received, the receivable is offset. Contributions are due to be paid by member organizations by the second business day of the month following the month to which the contributions relate. The contributions vary on the basis of changes in the number of participants, changes in the distribution of participants, changes in pensionable remuneration rates as a result of cost-of-living increases determined by the International Civil Service Commission, and the yearly grade step increase to individual pensionable remuneration received by all participants.

3.6 Benefits

75. Payments of benefits, including withdrawal settlements, are recorded on an accrual basis. The right to a benefit is generally forfeited if, for two years (withdrawal settlement or residual settlement) or five years (retirement, early retirement, deferred retirement or disability benefit) after payment has been due, the beneficiary has failed to submit payment instructions or has failed or refused to accept payment. An estimated benefit liability is recognized for withdrawal settlements with a participation period of less than five years for which the beneficiary has not submitted the payment instructions for 36 months from the time of the obligating event. The estimate is based on the average of the last five-year expense for such cases.

3.7 Accounting for non-United States dollar-denominated currency translations and balances

76. Non-United States dollar-denominated currency transactions are translated using the spot exchange rate between the functional currency and the non-United States dollar-denominated currency at the date of the transaction.

77. At each reporting date, non-United States dollar-denominated monetary items are translated using the closing spot rate. The Fund applies the WM/Reuters company rates (primary source) and the Bloomberg and Thomson Reuters rates (secondary source) as the spot rates for investment activities, and the United Nations operational rate of exchange for non-investment activities. Exchange differences arising on the settlement of these monetary items or on the translation of these monetary items at rates different from those at which they were previously translated are recognized in the statement of changes in net assets available for benefits in the period in which they arise.

3.8 Leases

78. All of the Fund's leases are categorized as operating leases. An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to the ownership of an asset. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

3.9 Property, plant and equipment

79. Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. All assets acquired for a cost of $20,000 and above will be capitalized. The Fund reviews this threshold annually for reasonableness. The Fund owns no land or buildings.

80. Depreciation is provided for property, plant and equipment over their estimated useful life using the straight-line method. The estimated useful lives for property, plant and equipment classes are as follows:

Class	*Estimated useful life, in years*
Computer equipment	4
Office equipment	4
Office furniture	10
Office fixtures and fittings	7
Audiovisual equipment	7

81. Leasehold improvements are recognized as assets and valued at cost and are depreciated over the lesser of seven years or the lease term. Impairment reviews are undertaken if indicators of impairment exist.

3.10 Intangible assets

82. Intangible assets are capitalized if their cost exceeds the threshold of $20,000, except for internally developed software, where the threshold is $50,000. The capitalized cost of internally developed software excludes those costs related to research and maintenance. Intangible assets are stated at historical cost less accumulated amortization and any impairment losses. Amortization is recognized over the estimated useful life using the straight-line method. The estimated useful lives for intangible asset classes are as follows:

Class	*Estimated useful life, in years*
Software acquired externally	3
Internally developed software	6
Licences and rights, copyrights and other intangible assets	Shorter of 3 years or the life of the asset

3.11 Emergency fund

83. The appropriation is made when the authorization is approved by the General Assembly. Participants wishing to avail themselves of this benefit submit an application to the Fund. After review and authorization, approved amounts are paid to the participant. Payments are charged directly against the appropriation account, and any unexpended balance reverts to the Fund at the end of the year. Current expense for the year is reported in the statement of changes in net assets available for benefits.

3.12 Provisions and contingent liabilities

84. A provision is recognized for future liabilities and charges if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

85. Contingent liabilities are disclosed for any possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Fund. Contingent liabilities are also disclosed where present obligations that arise from past events cannot be recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations, or the amount of the obligations cannot be reliably measured.

3.13 Employee benefits

86. Among certain short-term and other long-term benefits, the Fund provides its employees with certain post-employment benefits.

87. After-service health insurance and repatriation grants are classified as defined benefit schemes and accounted for as such.

88. The employees of the Fund themselves participate in the Pension Fund. While the Fund is a defined benefit scheme, it has been classified as a multi-employer fund. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. The Fund, in line with the other organizations participating in the Fund, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The Fund's contributions to the plan during the financial period are recognized as expenses in the statement of changes in net assets available for benefits.

3.14 Reconciliation of budget information

89. The Fund's budget is prepared on a modified cash basis and the financial statements on an accrual basis.

90. The General Assembly approves the biennial budget for the Fund's administrative expenses. Budgets may be subsequently amended by the Assembly or through the exercise of delegated authority.

91. As required by IPSAS 24, the statement of comparison of budget and actual amounts in relation to administrative expenses for the year ended 31 December 2017 provides a comparison of budget and actual amounts on a comparable basis. The comparison includes the original and final budget amounts, the actual amounts on the same basis as the corresponding budgetary amounts, and an explanation of material differences (greater than +/-10 per cent) between the actual and budget amounts.

92. Note 22 provides a reconciliation of actual amounts presented on the same basis as the budget and administrative expense included in the statement of changes in net assets.

3.15 Related party transactions

93. Parties are considered to be related when one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

94. The following parties are considered related parties for the Pension Fund:

(a) Key management personnel: the Chief Executive Officer, the Representative of the Secretary-General, the Deputy Chief Executive Officer, the Director of the Investment Management Division and the Chief Financial Officer;

(b) The General Assembly;

(c) The 23 member organizations participating in the Fund;

(d) The International Computing Centre.

95. A summary of the relationship and transactions with the above-mentioned parties is given in note 24.

3.16 Subsequent events

96. Any information that is received after the reporting period but before the financial statements are signed about conditions that existed at the date of the statement of net assets available for benefits is incorporated into the financial statements.

97. In addition, any event that occurs after the date of the statement of net assets available for benefits but before the financial statements are signed that is material to the Fund are disclosed in the notes to the financial statements.

Note 4
Cash and cash equivalents

98. Cash and cash equivalents include:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Cash at Bank — Investment Management Division	722 512	1 372 817
Cash at Bank — Fund secretariat	207 181	153 812
Cash held by external managers	42 114	35 893
Total cash and cash equivalents	**971 807**	**1 562 522**

Note 5
Financial instruments by category

99. The tables below provide an overview of all financial instruments held by category as at 31 December 2017 and 31 December 2016.[3]

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[3] Non-financial assets and liabilities other than employee benefits are excluded from the table, as this analysis is required only for financial instruments.

(Thousands of United States dollars)

	As at 31 December 2017		
	Financial instruments at fair value	*Loans and receivables*	*Other financial liabilities*
Financial assets as indicated in the statement of net assets available for benefits			
Cash and cash equivalents	971 807	–	–
Investments			
Short-term investments	1 834 280	–	–
Equities	39 784 228	–	–
Fixed income	15 329 947	–	–
Real assets	4 213 829	–	–
Alternative and other investments	2 403 366	–	–
Contributions receivable	–	6 939	–
Accrued income from investments	–	154 655	–
Receivable from investments traded	–	28 401	–
Withholding tax receivables	–	26 554	–
Other assets	–	16 758	–
Total financial assets	**64 537 457**	**233 307**	–
Financial liabilities as indicated in the statement of net assets available for benefits			
Benefits payable	–	–	148 186
Payable from investments traded	–	–	157 699
After-service health insurance and other employee benefits liabilities	–	–	94 363
Other accruals and liabilities	–	–	11 044
Total financial liabilities	–	–	**411 292**

Investments exceeding 5 per cent of net assets

100. There were no investments representing 5 per cent or more of net assets available for benefits as at 31 December 2017.

101. There were no investments representing 5 per cent or more of equities, fixed income, real assets and alternative and other investments as at 31 December 2017.

(Thousands of United States dollars)

	As at 31 December 2016		
	Financial instruments at fair value	*Loans and receivables*	*Other financial liabilities*
Financial assets as indicated in the statement of net assets available for benefits			
Cash and cash equivalents	1 562 522	–	–
Investments			
Short-term investments	724 509	–	–
Equities	34 455 474	–	–
Fixed income	12 311 322	–	–
Real assets	3 796 144	–	–
Alternative and other investments	1 663 801	–	–
Contributions receivable	–	13 824	–
Accrued income from investments	–	139 311	–
Receivable from investments traded	–	15 124	–
Withholding tax receivables	–	10 501	–
Other assets	–	19 027	–
Total financial assets	**54 513 772**	**197 787**	**–**
Financial liabilities as indicated in the statement of net assets available for benefits			
Benefits payable	–	–	133 782
Payable from investments traded	–	–	8 138
After-service health insurance and other employee benefits liabilities	–	–	76 736
Other accruals and liabilities	–	–	18 987
Total financial liabilities	**–**	**–**	**237 643**

Investments exceeding 5 per cent of net assets

102. There were no investments representing 5 per cent or more of net assets available for benefits as at 31 December 2016.

103. There were no investments representing 5 per cent or more of equities and fixed income as at 31 December 2016. The Fund held a total of $202.8 million in one real estate fund as at 31 December 2016, which represented 5 per cent or more of the real assets category. The Fund also held investments of $489.8 million in five private equity funds, which represented 5 per cent or more of the alternative and other investments category.

Note 6
Fair value measurement

104. IPSAS establishes a three-level fair value hierarchy under which financial instruments are categorized on the basis of the significance of inputs to the valuation technique. Level 1 includes those securities where unadjusted quoted prices are available in active markets for identical assets or liabilities. Level 2 includes those securities where inputs other than quoted prices included within level 1 are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Level 3 includes those securities where inputs for the asset or liability

are not based on observable market data (that is, unobservable inputs). The level in the fair value hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level of information that is significant to the fair value measurement. If a fair value measurement of an investment uses observable inputs that require significant adjustment on the basis of unobservable inputs, that investment is classified as level 3.

105. Assessing the significance of a particular input to the fair value measurement of an investment in its entirety requires judgment, considering factors specific to the investment.

106. The tables below present the fair value hierarchy of the Fund's investments (by asset class) measured at fair value as at 31 December 2017 and 31 December 2016.

(Thousands of United States dollars)

Fair value hierarchy as at 31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Short-term investments				
Government and agencies securities	–	158 321	–	158 321
Corporate bonds	–	680 728	90 015	770 743
Notes, deposits and commercial paper	–	36 067	–	36 067
Commercial mortgage-backed	–	869 149	–	869 149
Total short-term investments	**–**	**1 744 265**	**90 015**	**1 834 280**
Equities				
Common and preferred stock	36 781 931	–	–	36 781 931
Funds — exchange-traded funds	2 595 365	–	–	2 595 365
Real estate investment trusts	210 016	–	–	210 016
Funds — common stock	–	–	146 906	146 906
Stapled securities	50 010	–	–	50 010
Total equities	**39 637 322**	**–**	**146 906**	**39 784 228**
Fixed income				
Government and agencies securities	–	11 339 964	–	11 339 964
Corporate bonds	–	3 152 503	–	3 152 503
Municipal/provincial bonds	–	778 966	–	778 966
Commercial mortgage-backed	–	9 958	–	9 958
Funds — corporate bond	–	–	48 556	48 556
Total fixed income	**–**	**15 281 391**	**48 556**	**15 329 947**
Real assets				
Real estate funds	–	253 893	3 809 681	4 063 574
Infrastructure assets	–	–	132 167	132 167
Timberlands	–	–	18 088	18 088
Total real assets	**–**	**253 893**	**3 959 936**	**4 213 829**
Alternatives and other investments				
Private equity	–	–	2 285 545	2 285 545
Commodity funds	–	–	117 821	117 821
Total alternatives and other investments	**–**	**–**	**2 403 366**	**2 403 366**
Total	**39 637 322**	**17 279 549**	**6 648 779**	**63 565 650**

(Thousands of United States dollars)

Hierarchy disclosure as at 31 December 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Short-term investments				
Government and agencies securities	–	346 406	–	346 406
Corporate bonds	–	165 006	126 217	291 223
Notes, deposits and commercial paper	–	86 880	–	86 880
Total short-term investments	**–**	**598 292**	**126 217**	**724 509**
Equities				
Common and preferred stock	31 366 431	–	–	31 366 431
Funds — exchange-traded funds	2 646 766	–	–	2 646 766
Real estate investment trusts	240 075	–	–	240 075
Funds — common stock	–	–	158 361	158 361
Stapled securities	43 841	–	–	43 841
Total equities	**34 297 113**	**–**	**158 361**	**34 455 474**
Fixed income				
Government and agencies securities	–	8 837 924	–	8 837 924
Corporate bonds	–	2 789 955	–	2 789 955
Municipal/provincial bonds	–	626 113	–	626 113
Commercial mortgage-backed	–	10 628	–	10 628
Funds — corporate bond	–	–	46 702	46 702
Total fixed income	**–**	**12 264 620**	**46 702**	**12 311 322**
Real assets				
Real estate funds	–	239 698	3 407 072	3 646 770
Infrastructure assets	–	–	132 792	132 792
Timberlands	–	–	16 582	16 582
Total real assets	**–**	**239 698**	**3 556 446**	**3 796 144**
Alternatives and other investments				
Private equity	–	–	1 547 504	1 547 504
Commodity funds	–	–	116 297	116 297
Total alternatives and other investments	**–**	**–**	**1 663 801**	**1 663 801**
Total	**34 297 113**	**13 102 610**	**5 551 527**	**52 951 250**

Short-term investments

107. Corporate bonds amounting to $90.0 million as at 31 December 2017 (31 December 2016: $126.2 million) were considered to be level 3. Inputs for the value of these investments, while available from third-party sources, were not well-defined, readily observable market data. Consequently, the Fund has decided to classify such investments as level 3.

Equities

108. Common and preferred stocks, exchange traded funds, real estate investment trusts and stapled securities were classified under level 1 if bid prices were available from institutional vendors.

109. Common stock funds amounting to $146.9 million as at 31 December 2017 (31 December 2016: $158.4 million) were valued using a net asset value approach and hence classified under level 3.

Fixed income

110. The vast majority of the fixed-income securities prices were not obtained from an active market directly, which would have led to a level 1 classification. Instead, prices were obtained through bids from brokers, which were indicative quotes and therefore classified as level 2.

111. Corporate bond funds amounting to $48.6 million as at 31 December 2017 (31 December 2016: $46.7 million) were considered to be level 3. Inputs for the value of these investments, while available from third-party sources, were not well defined, readily observable market data. Consequently, the Fund has decided to classify such investments as level 3.

Real assets and alternatives and other investments

112. Real assets amounting to $3,959.9 million as at 31 December 2017 (31 December 2016: $3,556.4 million), as well as alternative and other investments amounting to $2,403.4 million as at 31 December 2017 (31 December 2016: $1,663.8 million), were classified under level 3, as they were priced using the net asset value methodology, for which the Fund was unable to corroborate or verify inputs using observable market data. In addition, limited options were available to the investors to redeem units, hence making the investments in such funds relatively illiquid.

113. Two real estate funds amounting to $253.9 million (31 December 2016: $239.6 million), which were readily redeemable at net asset value without penalties, were classified as level 2 assets, representing the net asset value as reported by the fund manager.

114. There were no transfers between levels in 2017.

115. The table below presents the inter-level transfers for the year ended 31 December 2016.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Transfers into				
Fixed income	–	19 370	–	19 370
Equities	–	–	29 836	29 836
Alternatives and other investments	–	–	–	–
Total	–	**19 370**	**29 836**	**49 206**
Transfers out of				
Fixed income	–	–	(19 370)	(19 370)
Equities	–	–	–	–
Alternative and other investments	–	–	(29 836)	(29 836)
Total	–	–	**(49 206)**	**(49 206)**

116. For the year ended 31 December 2016, there was a transfer of one fixed-income security, amounting to $19.4 million, out of level 3 and into level 2. The security was

priced by multiple vendors as at 31 December 2016, as compared with a single vendor as at 31 December 2015. Consequently, the Fund has decided to classify this investment as level 2.

117. The table below presents the movements in level 3 instruments for the period ended 31 December 2017 by class of financial instrument.

(Thousands of United States dollars)

	Equities	*Fixed income*	*Real assets*	*Alternative and other investments*	*Total*
Opening balance	**158 361**	**172 919**	**3 556 446**	**1 663 801**	**5 551 527**
Purchases	845	88 130	759 979	780 513	1 629 467
Sales/return of capital	(29 441)	(139 964)	(756 102)	(440 867)	(1 366 374)
Transfers (out of)/into level 3	–	–	–	–	–
Net gains and losses recognized in the statement of changes in net assets available for benefits	17 141	17 486	399 613	399 919	834 159
Closing balance	**146 906**	**138 571**	**3 959 936**	**2 403 366**	**6 648 779**
Change in unrealized gains and losses for level 3 assets held at period-end and included in the statement of changes in net assets available for benefits	(2 238)	5 859	169 555	216 533	359 709

118. The table below presents the movements in level 3 instruments for the year ended 31 December 2016 by class of financial instrument.

(Thousands of United States dollars)

	Equities	*Fixed income*	*Real assets*	*Alternative and other investments*	*Total*
Opening balance	**165 279**	**109 367**	**3 127 959**	**1 380 833**	**4 783 438**
Purchases	3 043	128 602	812 716	371 192	1 315 553
Sales/return of capital	(17 150)	(48 280)	(620 183)	(232 112)	(917 725)
Transfers (out of)/into level 3	29 836	(19 370)	–	(29 836)	(19 370)
Net gains and losses recognized in the statement of changes in net assets available for benefits	(22 647)	2 600	235 954	173 724	389 631
Closing balance	**158 361**	**172 919**	**3 556 446**	**1 663 801**	**5 551 527**
Change in unrealized gains and losses for level 3 assets held at period-end and included in the statement of changes in net assets available for benefits	(13 176)	(1 869)	205 168	142 846	332 969

Note 7
Accrued income from investments

119. Accrued income from investments is income earned during the year that has yet to be received as at the date of the statement of net assets available for benefits.

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Cash and cash equivalents	719	324
Short-term investments	9 243	5 447
Fixed-income securities	99 254	86 486
Dividends receivable on equities	43 280	44 919
Real assets and alternative investments	2 159	2 135
Total accrued income from investments	**154 655**	**139 311**

Note 8
Withholding tax receivables

120. Withholding tax receivables as at 31 December 2016 and 2017 and withholding tax expense for the years ended 31 December 2016 and 31 December 2017 by county are as follows:

(Thousands of United States dollars)

	For the year 2016			As at 31 December 2016			For the year 2017			As at 31 December 2017		
Country	*Tax withheld*	*Tax received*	*Tax expense*	*Tax recoverable*	*Deemed not recoverable*	*Tax receivable*	*Tax withheld*	*Tax received*	*Tax expense*	*Tax recoverable*	*Deemed not recoverable*	*Tax receivable*
Australia	–	–	–	130	–	130	–	–	130	140	(140)	–
Austria	–	–	1	26	–	26	–	–	(4)	30	–	30
Belgium	1 129	1 128	1	–	–	–	316	320	(4)	–	–	–
Brazil	208	–	203	495	(495)	–	461	–	161	486	(486)	–
Chile	263	–	263	–	–	–	319	25	279	15	–	15
China	2 080	270	1 810	9 213	(9 213)	–	[illegible]	168	[illegible]	[illegible]	[illegible]	–
France	–	–	–	–	–	–	195	–	(24)	219	–	219
Germany	7 585	7 907	430	5 696	–	5 696	7 337	–	(1 519)	14 552	–	14 552
Greece	–	–	107	104	(104)	–	–	–	–	118	(118)	–
Ireland	23	–	2	21	–	21	113	–	(11)	145	–	145
Israel	5	–	5	–	–	–	37	–	37	–	–	–
Mexico	–	–	–	–	–	–	13	–	–	13	–	13
Netherlands	1 675	1 626	53	139	–	139	1 716	1 816	(38)	77	–	77
Papua New Guinea	–	–	–	–	–	–	21	–	21	21	(21)	–
Russian Federation	591	–	918	170	–	170	1 254	608	816	–	–	–
Singapore	–	–	37	–	–	–	–	–	–	–	–	–
Spain	2 195	2 271	(2)	191	–	191	1 983	1 974	(29)	229	–	229
Sweden	–	–	29	28	(28)	–	–	–	–	32	(32)	–
Switzerland	7 288	7 239	(60)	2 201	–	2 201	8 999	2 322	(370)	9 248	–	9 248
Turkey	–	–	–	394	(394)	–	–	–	–	366	(366)	–
United Kingdom	1 645	2 600	(53)	1 927	–	1 927	2 012	2 161	(248)	2 026	–	2 026
Total	**24 687**	**23 041**	**3 749**	**20 735**	**(10 234)**	**10 501**	**27 965**	**9 394**	**2 518**	**38 783**	**(12 229)**	**26 554**

121. In Brazil and some provinces of China, and for certain periods in Greece, Sweden and Turkey, there is no formally established reclamation mechanism in place, and in these cases the Fund's custodians have thus far been unable to file and/or reclaim the taxes withheld. Despite the fact that these Member States have confirmed the Fund's tax-exempt status, the taxes withheld from direct investments in these countries are accrued but continue to be fully provided for in 2017.

122. Ageing analysis of withholding tax receivable as at 31 December 2017 and 31 December 2016 is as follows:

(Thousands of United States dollars)

	As at 31 December 2017			*As at 31 December 2016*		
Country	*Greater than 3 years*	*Less than 3 years*	*Tax receivable*	*Greater than 3 years*	*Less than 3 years*	*Tax receivable*
Australia	–	–	–	67	63	130
Austria	30	–	30	–	26	26
Chile	–	15	15	–	–	–
France	–	219	219	–	–	–
Germany	–	14 552	14 552	–	5 696	5 696
Ireland	–	145	145	–	21	21
Mexico	–	13	13	–	–	–
Netherlands	–	77	77	–	139	139
Russian Federation	–	–	–	170	–	170
Spain	–	229	229	–	191	191
Switzerland	–	9 248	9 248	–	2 201	2 201
United Kingdom	–	2 026	2 026	–	1 927	1 927
Total	**30**	**26 524**	**26 554**	**237**	**10 264**	**10 501**

Note 9
Other assets

123. The other assets included in the statement of net assets available for benefits can be broken down as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Prepayments and benefits receivable	16 233	13 688
Property, plant and equipment	2 787	3 912
Intangible assets in use	3 649	10 298
United Nations receivables	–	4 891
Other receivables	525	448
Total	**23 194**	**33 237**

9.1 Prepayments and benefits receivable

124. An overview of the prepayments and other accounts receivable held by the Fund is as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Prepayments	2 625	491
Advance benefit payments due to payroll conversion	8 663	9 817
Benefits receivable	9 556	8 092
Benefits receivable — provision	(4 611)	(4 712)
Total	**16 233**	**13 688**

9.2 Property, plant and equipment

125. An overview of the fixed assets held by the Fund is as follows:

(Thousands of United States dollars)

	Information technology equipment	*Leasehold improvements*		
	In use	*In use*	*Under construction*	*Total*
Cost				
1 January 2017	1 595	13 963	–	15 558
Additions	–	–	190	190
Disposals/transfers	(248)	–	–	(248)
31 December 2017	1 347	13 963	190	15 500
Accumulated depreciation				
1 January 2017	1 289	10 357	–	11 646
Depreciation	161	1 154	–	1 315
Disposals/transfers	(248)	–	–	(248)
31 December 2017	1 202	11 511	–	12 713
Net book value, 31 December 2017	**145**	**2 452**	**190**	**2 787**

(Thousands of United States dollars)

	Information technology equipment	*Leasehold improvements*		
	In use	*In use*	*Under construction*	*Total*
Cost				
1 January 2016	1 333	10 880	2 170	14 383
Additions	283	3 083	(2 170)	1 196
Disposals/transfers	(21)	–	–	(21)
31 December 2016	1 595	13 963	–	15 558
Accumulated depreciation				
1 January 2016	1 086	9 074	–	10 160
Depreciation	224	1 283	–	1 507
Disposals/transfers	(21)	–	–	(21)
31 December 2016	1 289	10 357	–	11 646
Net book value, 31 December 2016	**306**	**3 606**	**–**	**3 912**

126. The leasehold improvements in use and under construction included above relate to the Fund's improvements to its offices at New York.

9.3 Intangible assets

127. The intangible asset amount included in the statement of net assets available for benefits can be broken down as follows:

(Thousands of United States dollars)

	Intangible assets		
	In use	*Under construction*	*Total*
Cost			
1 January 2017	21 722	–	21 722
Additions	–	–	–
Transfers	–	–	–
Disposals	–	–	–
31 December 2017	21 722	–	21 722
Accumulated amortization			
1 January 2017	11 424	–	11 424
Amortization	6 649	–	6 649
Disposals	–	–	–
31 December 2017	18 073	–	18 073
Net book value, 31 December 2017	**3 649**	–	**3 649**

(Thousands of United States dollars)

	Intangible assets		
	In use	*Under construction*	*Total*
Cost			
1 January 2016	20 305	115	20 420
Additions	1 734	–	1 734
Transfers	115	(115)	–
Disposals	(432)	–	(432)
31 December 2016	21 722	–	21 722
Accumulated amortization			
1 January 2016	5 218	–	5 218
Amortization	6 638	–	6 638
Disposals	(432)	–	(432)
31 December 2016	11 424	–	11 424
Net book value, 31 December 2016	**10 298**	–	**10 298**

Note 10
Benefits payable

128. The amount shown in the statement of net assets can be broken down as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Withdrawal settlements	57 683	41 210
Lump-sum payments	48 236	52 105
Periodic benefits payable	41 974	40 524
Other benefits payables/adjustments	293	(57)
Total	**148 186**	**133 782**

Note 11
After-service health insurance and other employee benefits

129. A breakdown of the after-service health insurance and other benefits payable amount shown in the statement of net assets is as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
After-service health insurance liability	86 601	69 383
Repatriation grant and related costs	3 407	2 932
Education grant and related costs	331	292
Death benefit	–	149
Annual leave	3 735	3 724
Home leave	289	256
Total	**94 363**	**76 736**

After-service health insurance, annual leave, repatriation grants and death benefit liability

130. The Fund provides its employees who have met certain eligibility requirements with the following after-service and end-of-service benefits:

- Health-care benefits after they retire. This benefit is referred to as after-service health insurance.
- Repatriation benefits to facilitate the relocation of expatriate staff members.
- Annual leave benefits to provide staff members with periods of time off from work at full pay for personal reasons and for purposes of health, rest and recreation. Upon separation from service, staff members who have accrued unused annual leave will be paid for each day of unused leave up to a maximum of 60 days.
- Death benefits payable in case of death in service to any dependants.

131. The liabilities as at 31 December 2017 were calculated on the basis of census data as at 31 October 2017, provided to the actuary by the United Nations; the liabilities as at 31 December 2016 were the result of the roll-forward to 31 December

2016 of the end-of-service benefit obligations as at 31 December 2015 for the Fund by the consulting actuary; and:

- Health insurance premium and contribution data provided by the United Nations
- Actual retiree claims experience under health insurance plans
- Estimated travel and shipment costs and annual leave balances reported by the United Nations in the census data
- Various economic, demographic and other actuarial assumptions
- Generally accepted actuarial methods and procedures

132. In performing the roll-forward to 31 December 2016, only the financial assumptions such as the discount rates, inflation and health-care cost trend rates were reviewed as at 31 December 2016 and updated when necessary. All other assumptions remain the same as those used for the full valuation as at 31 December 2015.

133. The key assumptions in the calculation of after-service liabilities are the discount rate and health-care trend rates. The discount rate is based on the "spot" rate that reflects the market expectations at the time of the calculations to meet future expected benefit payments, based on high-quality bonds. The discount rate is then the equivalent single rate that would produce the same liability as the full spot curve using the multiple bonds necessary to meet the future cash flow expectations.

134. For 31 December 2017, the single equivalent discount rates were selected and determined by the Fund, as follows:

- 3.64 per cent for the after-service health insurance scheme
- 3.47 per cent for repatriation benefits
- 3.52 per cent for annual leave

135. For 31 December 2016, the single equivalent discount rates were selected and determined by the Fund, as follows:

- 3.83 per cent for the after-service health insurance scheme
- 3.46 per cent for repatriation benefits
- 3.58 per cent for annual leave
- 3.29 per cent for death benefits

136. For the purpose of comparison, the table below shows the percentage change due to a 1 per cent change in the discount rate.

	Impact on accrued liability			
Discount rate	*After-service health insurance*	*Repatriation benefit*	*Annual leave*	*Death benefit*
Increase of 1 per cent	18 per cent decrease	9 per cent decrease	9 per cent decrease	7 per cent decrease
Decrease of 1 per cent	24 per cent increase	10 per cent increase	10 per cent increase	7 per cent increase

137. The comparison of health-care cost trend rates is as follows:

	31 December 2017	*31 December 2016*
United States non-Medicare	5.7 per cent, trending down to 3.85 per cent after 15 years	6.0 per cent, trending down to 4.5 per cent after 8 years
United States Medicare	5.5 per cent, trending down to 3.85 per cent after 15 years	5.7 per cent, trending down to 4.5 per cent after 7 years
United States dental	4.8 per cent, trending down to 3.85 per cent after 15 years	4.9 per cent, trending down to 4.5 per cent after 9 years
Non-United States — Switzerland	4.0 per cent, trending down to 3.05 per cent after 10 years	4.0 per cent per year
Non-United States — eurozone	4.0 per cent, trending down to 3.05 per cent after 10 years	4.0 per cent per year

138. The increase in the total after-service health insurance liabilities reported from 31 December 2016 to 31 December 2017 is due primarily to the impact of changing the actuarial assumptions, in particular the increase in life expectancies and the decrease in discount rates for benefits denominated in United States dollars.

139. Other specific key assumptions used in the calculations on the basis of census data as at 31 October 2017 were as follows:

After-service health insurance

140. A total of 217 active staff were included in the calculation: 181 United States-based and 36 non-United States-based. A total of 91 retired staff or their surviving spouses were included in the calculation: 76 United States-based and 15 non-United States-based. In addition, four active staff and three retirees or their surviving spouses who participated in dental-only plans were included. For active staff, the average age was 47 years with 10 years of service. The average age of retirees was 69 years.

Repatriation benefits

141. Staff members who are appointed as international staff are eligible for the payment of a repatriation grant after one year of active service outside his or her country of nationality as long as the reason for separation is not summary dismissal or abandonment of post.

142. The amount ranges from 2 to 28 weeks of salary, depending on the category of employment and years of service of the eligible staff. Travel and shipment of personal effects may also be authorized to the recognized country of home leave.

143. A total of 82 eligible staff with an average annual salary of $81,804 were considered.

Annual leave

144. Staff are entitled to accrue annual leave from the date of their appointment. Staff members who, upon separation from service, have accrued leave will be paid up to a maximum of 60 days if on a fixed-term appointment or up to 18 days on a temporary appointment. Payment amount is calculated at 1/261 of applicable salary amounts for each day of unused annual leave.

145. A total of 280 active staff with an average annual salary of $99,432 were considered.

Note 12
Other accruals and liabilities

146. The amount shown as other accruals and liabilities in the financial statements can be broken down as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Accruals for management fees and expenses	5 030	10 287
Accrual for contractual services	–	4 339
Restoration payable	2 485	2 036
Operating leases rent accrual	1 122	1 755
After-service health insurance payable to member organizations	6	7
United Nations payable	1 874	–
Audit fee accrual	197	197
Other	330	366
Total	**11 044**	**18 987**

Note 13
Investment income

147. The table below summarizes the Fund's income from investments net of transaction costs recognized during the period. Any transaction cost that can be allocated to a single transaction or trade is netted off against investment income. Examples are broker commissions, other transaction costs and management fees. Any management expense charged to the income statement of a real asset or alternative fund was recorded separately as management expenses in the Fund's statement of changes in net assets and included under transaction costs.

148. In some jurisdictions, the Fund receives dividend income, interest income and real estate income without any withholding tax. This is primarily a result of the fact that pension funds are exempt from withholding taxes in many jurisdictions. However, a number of jurisdictions do not provide this benefit to all pension funds, but recognize that the United Nations Joint Staff Pension Fund is part of the United Nations and hence exempt from national taxation of Member States on its direct investments, in accordance with Article 105 of the Charter of the United Nations and with article II, section 7 (a), of the 1946 Convention on the Privileges and Immunities of the United Nations (see also note 3.3). The Fund is not able to reliably measure the value of the additional tax exemption obtained by being part of the United Nations and therefore does not disclose the value of this additional benefit on the face of the statement of changes in net assets available for benefits as non-exchange income in accordance with IPSAS 23, Revenue from non-exchange transactions.

(Thousands of United States dollars)

	2017	*2016*
Total change in fair value for financial assets designated at fair value	**9 081 326**	**1 582 604**
Interest income		
Interest income on cash and cash equivalents	9 298	3 287
Interest income on fixed income instruments	352 444	322 499
Total interest income	**361 742**	**325 786**
Total dividend income	**865 788**	**821 651**
Total income from real assets	**65 530**	**55 015**
Transaction costs		
Management fees and other related fees	(103 842)	(90 696)
Small capitalization fund management fees	(12 511)	(10 087)
Brokerage commissions	(13 770)	(13 012)
Other transactions cost	(3 022)	(3 699)
Total transaction cost	**(133 145)**	**(117 494)**
Net investment income	**10 241 241**	**2 667 562**

149. The table below presents the change in the fair value of investments by asset class as a result of change in market price and currency exchange rate for the years ended 31 December 2017 and 31 December 2016.

	2017			*2016*		
	Market price	*Currency*[a]	*Total change*	*Market price*	*Currency*[a]	*Total change*
Short-term investments	(8 431)	89 522	81 091	(4 014)	(13 616)	(17 630)
Equities	6 572 139	865 916	7 438 055	2 008 382	(425 868)	1 582 514
Fixed income	(6 345)	644 309	637 964	(284 677)	(210 523)	(495 200)
Real assets investments	416 993	54 797	471 790	300 984	(19 206)	281 778
Alternative investments	422 238	22 471	444 709	241 396	(5 959)	235 437
Cash, cash equivalents and receivable and payable from investment traded	–	7 717	7 717	–	(4 295)	(4 295)
Total change in fair value for financial assets designated at fair value	**7 396 594**	**1 684 732**	**9 081 326**	**2 262 071**	**(679 467)**	**1 582 604**

[a] Change in currency exchange gain/(loss) includes a $332.5 million (2016: $775.9 million) realized currency exchange loss and a $2,017.2 million unrealized currency exchange gain (2016: $96.4 million).

Note 14
Contributions

150. Contributions received during the period can be broken down as follows:

(Thousands of United States dollars)

	2017	*2016*
Contributions from participants		
Regular contributions	787 636	752 314
Contributions for validation	869	607
Contributions for restoration	4 088	4 118
	792 593	**757 039**
Contributions from member organizations		
Regular contributions	1 575 272	1 504 629
Contributions for validation	1 879	1 564
	1 577 151	**1 506 193**
Other contributions		
Contributions for participants transferred in under agreements	5 826	3 827
Receipts of excess actuarial value over regular contributions	546	171
Other contributions/adjustments	24 796	6 268
	31 168	**10 266**
Total contributions for the period	**2 400 912**	**2 273 498**

151. The contribution income varies on the basis of changes in the number of participants, changes in the distribution of participants, changes in pensionable remuneration rates as a result of cost-of-living increases determined by the International Civil Service Commission and the yearly step increase to individual pensionable remuneration received by all participants.

Note 15
Other income

152. Other income during the period can be broken down as follows:

(Thousands of United States dollars)

	2017	*2016*
Class action proceeds and claims	7 663	485
Notional interest income	3 835	2 093
United Nations University management fees	50	50
Other income	76	740
Total other income for the period	**11 624**	**3 368**

Note 16
Benefit expenses

153. Benefit expenses during the period can be broken down as follows:

(Thousands of United States dollars)

	2017	2016
Withdrawal settlements and full commutation of benefits		
For contributory services of 5 years or less	42 413	42 790
For contributory services of more than 5 years	152 390	74 605
	194 803	**117 395**
Retirement benefits		
Full retirement benefits	1 343 089	1 297 563
Early retirement benefits	684 426	668 319
Deferred retirement benefits	97 412	93 225
Disability benefits	75 452	67 886
Survivor benefits	248 154	234 666
Child benefits	31 040	29 632
	2 479 573	**2 391 291**
Other benefits/adjustments		
Payments for participants transferred out under agreements	2 523	228
Other benefits/adjustments	(3 629)	(2 379)
	(1 106)	**(2 151)**
Total benefit expenses for the period	**2 673 270**	**2 506 535**

Note 17
Administrative expenses

154. Administrative expenses in 2017 and 2016 are as follows:

(Thousands of United States dollars)

	2017				
	Administrative expenses	*Investment expenses*	*Audit fees*	*Board expenses*	*Total*
Established posts (excluding change in the value of the after-service health insurance liability)	15 371	11 044	–	–	26 415
Changes in the value of the after-service health insurance liability	12 789	4 130	299	–	17 218
Other staff costs	6 900	692	–	–	7 592
Hospitality	–	1	–	–	1
Consultants	341	7	–	–	348
Travel	329	403	–	–	732
Contractual services[a]	18 194	15 742	–	–	33 936
General operating expenses	4 698	4 085	–	–	8 783
Supplies and materials	29	21	–	–	50
Furniture and equipment	296	525	–	–	821
Audit costs (excluding change in the value of the after-service health insurance liability)	–	–	1 095	–	1 095
Board expenses	–	–	–	409	409
Total administrative expenses	**58 947**	**36 650**	**1 394**	**409**	**97 400**

[a] Includes training cost.

(Thousands of United States dollars)

	2016				
	Administrative expenses	*Investment expenses*	*Audit fees*	*Board expenses*	*Total*
Established posts (excluding change in the value of the after-service health insurance liability)	14 387	10 418	–	–	24 805
Changes in the value of the after-service health insurance liability	4 655	1 474	116	–	6 245
Other staff costs	4 189	363	–	–	4 552
Hospitality	–	–	–	–	–
Consultants	113	87	–	–	200
Travel	349	395	–	–	744
Contractual services[a]	14 052	13 016	–	–	27 068
General operating expenses	4 367	4 290	–	–	8 657
Supplies and materials	81	27	–	–	108
Furniture and equipment	460	410	–	–	870
Audit costs (excluding change in the value of the after-service health insurance liability)	–	–	1 099	–	1 099
Board expenses	–	–	–	416	416
Total administrative expenses	**42 653**	**30 480**	**1 215**	**416**	**74 764**

[a] Includes training cost.

Note 18
Other expenses

155. Other expenses during the period can be broken down as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Emergency fund expense	117	40
Notional interest expense	2 231	637
Other expenses and claims	459	605
Total other expenses for the period	**2 807**	**1 282**

Note 19
Actuarial situation of the Fund
(see also note 1.5)

156. The Fund provides retirement, death, disability and related benefits for staff of the United Nations and other organizations admitted to membership in the Fund. Accumulated (promised) plan benefits represent the total actuarial present value of those estimated future benefits that are attributable under the Fund's provisions to the service that staff have rendered as at the valuation date. Accumulated plan benefits include benefits to be paid to: (a) retired or terminated staff or their beneficiaries; (b) beneficiaries of staff who have died; and (c) present staff or their beneficiaries.

157. Benefits payable under all circumstances — retirement, death, disability and termination of employment — are included to the extent they are deemed attributable to the service that staff have rendered as at the valuation date.

158. The actuarial present value of accumulated (promised) plan benefits (which does not take into account future increases in pensionable remuneration) is determined by independent actuaries, and the amount is derived by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

159. The Fund is applying the guidance included in IAS 26.28 (b) and discloses the actuarial present value of promised retirement benefits in the notes to its financial statements.

Key assumptions

160. The significant actuarial assumptions used in the valuation as at 31 December 2017 are as follows:

- Life expectancy of participants (2017 United Nations mortality tables adjusted for forecast improvements in mortality)
- Age-specific retirement and turnover assumptions as approved by the Pension Board during its sixty-fourth session
- Annual nominal investment return of 6.0 per cent, which serves as the discount rate for liabilities Annual rate of 2.5 per cent for cost-of-living increases in pensions
- Assumed long-term cost of two-track system of 2.1 per cent of pensionable remuneration
- Assumed percentage of benefits commuted by retired participants of 19 per cent of annuity payments

161. These key assumptions were recommended by the Committee of Actuaries and adopted by the Pension Board at its sixty-fourth session, in July 2017. The foregoing actuarial assumptions are based on the presumption that the Fund will continue. Were the Fund to be terminated, different actuarial assumptions and other factors may be applicable in determining the actuarial present value of accumulated plan benefits.

Statement of accumulated benefits

162. The actuarial present value of accumulated plan benefits as at 31 December 2017 is as follows (see note 1.11 for a description of the pension adjustment system):

(Millions of United States dollars)

	If future pension payments are made under the Regulations	
	Without pension adjustments	*With pension adjustments*
Actuarial value of vested benefits		
Participants currently receiving benefits	25 902	34 057
Vested terminated participants	742	1 279
Active participants	14 040	19 278
Total vested benefits	**40 684**	**54 614**
Non-vested benefits	921	1 165
Total actuarial present value of accumulated plan benefits	**41 605**	**55 779**

Information on participation in the Pension Fund

163. The participation in the plan developed as follows:

	As at 31 December 2017
Active participants[a]	
Number	116 985
Annual remuneration (millions of United States dollars)	10 464
Average remuneration (United States dollars)	**89 451**
Inactive participants[a] and beneficiaries[b]	
Number	87 806
Annual benefit (millions of United States dollars)	2 455
Average benefit (United States dollars)	**27 963**

[a] For the purpose of the actuarial valuation, 9,559 inactive participants are separated from the total number of participants and are reflected in the valuation as a participant with a deferred benefit entitlement.

[b] Multiple benefits in payments were combined for selected beneficiaries.

Actuarial asset value used for periodic actuarial valuations

164. The actuarial asset value used for the purpose of preparing the periodic actuarial valuation differs from the value presented in the financial statements. The periodic actuarial valuation presents a value using a five-year moving market average methodology. A 15 per cent limiting corridor is applied, which means that the computed value has a minimum value of 85 per cent and a maximum value of 115 per cent of the market value of the assets as at the valuation date. Starting with the valuation as at 31 December 2013, a gradual transition to the alternative asset averaging methodology was introduced, with a targeted completion of the actuarial valuation effective 31 December 2019. The effect of transitioning to the alternative assets averaging methodology is an increase in actuarial assets of $3,439 million as at 31 December 2017.

Note 20
Commitments and contingencies

20.1 Investment commitments

165. As at 31 December 2017 and 31 December 2016, the Fund was committed to the following investment commitments:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Real estate funds	2 025 968	2 045 371
Private equity	1 920 260	1 967 515
Infrastructure funds	65 598	60 020
Timberland funds	11 270	86 701
Total commitments	**4 023 096**	**4 159 607**

166. In the private equity and real estate, infrastructure and timberland investments, funds are drawn down in accordance with the terms and conditions of the fund agreements. The fund agreements are unique to each individual investment. However, funds are drawn down to: (a) fund investments in assets that have been purchased or are being contracted for purchase; and (b) pay fees earned by the general partner or manager under the terms and conditions of the fund agreement.

20.2 Lease commitments

167. As at 31 December 2017 and 31 December 2016, the Fund was committed to the following lease commitments:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Obligations for property leases		
Under 1 year	6 802	6 566
1–5 years	11 025	16 380
Beyond 5 years	–	–
Total property lease obligations	**17 827**	**22 946**

20.3 Legal or contingent liabilities and contingent assets

168. There are no material contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to the Pension Fund.

169. Contingent assets are excluded from the statement of net assets available for benefits on the basis that the inflow of economic benefits is not virtually certain but reliant on the occurrence of an event outside of the control of the Fund. There were no contingent assets as at 31 December 2017 or 31 December 2016.

Note 21
Risk assessment

170. The Fund's activities expose it to a variety of financial risks, including, but not limited to, credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk).

171. The Fund's investment risk management programme seeks to measure and monitor the risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance, consistent with the Fund's strategic asset allocation policy. The Investments Committee provides advice to the Representative of the Secretary-General on investment strategy and reviews the investments of the Fund at its quarterly meetings. The Committee advises on long-term policy, asset allocation and strategy, diversification by type of investment, currency and economic sector and any other matters.

172. The Fund uses different methods to measure, monitor and manage the various types of financial risks to which it is exposed. These methods are explained below.

21.1 Credit risk

173. Credit risk is defined as the potential risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms, resulting in a loss. The risk of a trading partner not fulfilling its obligations to another in a timely manner is a risk that all obligors face. Ensuring adequate control over credit risk and effective risk management is critical to the long-term sustainability of the Fund. The Fund manages risk by addressing the following important areas:

- Approving and maintaining appropriate credit exposure measurement and monitoring standards
- Establishing limits for amounts and concentrations of credit risk, monitoring and implementing a review process for credit exposure
- Ensuring adequate controls over credit risk

174. The Fund is primarily exposed to credit risk in its debt securities (total fixed income, and short-term bills and notes). The Fund's policy aimed at managing this risk is to invest in debt securities that have an investment grade rating by at least one of the following well-known credit rating agencies: Standard & Poor's, Moody's and Fitch. For the purpose of consistency in this disclosure, the Fund used Moody's Investors Service, which provided ratings on most of the Fund's debt securities in 2017. As at 31 December 2017, 90 per cent (2016: 92 per cent) of the individual securities of the fixed-income portfolio were investment grade (rated between Aaa and Baa3) by Moody's.

175. The analysis below summarizes the credit quality of the Fund's fixed-income portfolio at 31 December 2017 and 31 December 2016, respectively, as provided by Moody's.

(Thousands of United States dollars)

	31 December 2017			
	Aaa–A3	*Baa1–Baa3*	*Not rated*	*Total*
Commercial mortgage-backed	7 262	–	–	7 262
Corporate bonds	2 495 552	472 226	184 725	3 152 503
Funds — corporate bond	–	–	48 556	48 556
Government agencies	1 628 710	–	128 068	1 756 778
Government bonds	7 622 010	807 341	1 011 985	9 441 336
Government mortgage-backed	3 461	–	138 389	141 850
Municipal/provincial bonds	724 618	–	54 348	778 966
Non-government-backed collateralized mortgage obligations	2 696	–	–	2 696
Total fixed income	**12 484 309**	**1 279 567**	**1 566 071**	**15 329 947**
Short-term investments	**649 965**	**122 094**	**1 062 221**	**1 834 280**

(Thousands of United States dollars)

	31 December 2016			
	Aaa–A3	*Baa1–Baa3*	*Not rated*	*Total*
Commercial mortgage-backed	7 267	–	–	7 267
Corporate bonds	2 056 248	555 015	178 692	2 789 955
Funds — corporate bond	–	–	46 702	46 702
Government agencies	1 439 840	–	59 389	1 499 229
Government bonds	6 310 445	359 464	576 684	7 246 593
Government mortgage-backed	–	–	56 141	56 141
Index linked government bonds	35 961	–	–	35 961
Municipal/provincial bonds	544 914	–	81 199	626 113
Non-government-backed collateralized mortgage obligations	3 361	–	–	3 361
Total fixed income	**10 398 036**	**914 479**	**998 807**	**12 311 322**
Short-term investments	**203 659**	**68 107**	**452 743**	**724 509**

176. Of the unrated fixed-income securities totalling $1,566.1 million as at 31 December 2017, $1,355.6 million were in debt securities that present a very low credit risk, as they carry an issuer's credit rating of investment grade, thereby providing evidence of their creditworthiness. Of the remaining unrated debt securities amounting to $210.5 million for which no issuer rating was available from Moody's, 17 debt securities, amounting to $161.9 million, were rated investment grade by at least one of the other two rating agencies (Standard & Poor's and Fitch), and another security, amounting to $48.6 million, was a bond fund and, as such, was not evaluated by a credit rating agency.

177. Of the unrated short-term securities totalling $1,062.2 million as at 31 December 2017, $938.2 million were in debt securities that present a very low credit risk, as they carry an issuer's credit rating of investment grade, thereby providing evidence of their creditworthiness. The six remaining unrated debt

securities, amounting to $124.0 million, for which no issuer rating was available from Moody's, were rated investment grade by at least one of the other two rating agencies (Standard & Poor's and Fitch).

178. Of the unrated fixed income securities totalling $998.8 million as at 31 December 2016, $895.1 million were in debt securities that present a very low credit risk, as they carry an issuer's credit rating of investment grade, thereby providing evidence of their creditworthiness. Of the remaining unrated debt securities amounting to $103.7 million for which no issuer rating was available from Moody's, seven debt securities, amounting to $57.0 million, were rated investment grade by at least one of the other two rating agencies (Standard & Poor's and Fitch) and another security, amounting to $46.7 million, was a bond fund and, as such, was not evaluated by a credit rating agency.

179. Of the unrated short-term securities totalling $452.7 million as at 31 December 2016, $429.7 million were in debt securities that present a very low credit risk, as they carry an issuer's credit rating of investment grade, thereby providing evidence of their creditworthiness. The one remaining unrated debt security, amounting to $23.0 million, for which no issuer rating was available from Moody's, was rated investment grade by at least one of the other two rating agencies (Standard & Poor's and Fitch).

180. All transactions in listed securities are paid for upon delivery using approved brokers. Settlement risk is considered minimal, as the delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

21.2 Liquidity risk

181. Liquidity risk is the risk of not meeting cash requirements for the Fund's obligations. Cash requirements can arise from settlement needs for various investment trades, capital calls from uncalled or unfunded commitments, and benefit payment disbursements in various currencies. The Fund's financial liabilities as at 31 December 2017 and 31 December 2016 contractually mature within three months. The Fund manages its liquidity risk by investing the vast majority of its investments in liquid securities.

21.3 Market risk

182. Market risk is the risk of change in the value of plan assets as a result of various market factor movements such as interest rates, major market index movements, currency exchange rates and market volatility. The Fund has adopted value at risk (VaR) as a parameter to measure market risk, in addition to standard deviation and tracking risk. VaR is a universally accepted parameter to communicate market risk for financial institutions and asset management institutions. The Fund also includes risk tolerance for investment risks in the investment policy approved by the Representative of the Secretary-General. On the basis of this risk tolerance, a risk budget has been assigned to each portfolio manager. The risk budget is modified once a year.

183. VaR, as a single number, summarizes the portfolio's exposure to market risk as well as the probability of an adverse move, or in other words, level of risk. The main purpose of VaR is to assess market risks that result from changes in market prices. There are three key characteristics of VaR: (a) the amount (in percentage or dollar terms); (b) the time horizon (in this case, one year); and (c) the confidence level (in this case, 95 per cent). When reported as 95 per cent confidence, the VaR 95 number (in percentage or in dollar terms) indicates that there is a 95 per cent chance that

portfolio losses will not exceed the given VaR 95 number (in percentage or dollar terms) over a year. In addition, the Fund reports tail risk or expected shortfall, which measures the average expected loss for the 5 per cent of the time when the losses exceed VaR 95. The Fund also reports contribution to risk. Considering the risk of the whole Fund as 100 per cent, contribution to risk indicates how much of the risk is contributed by that asset class. Contribution to risk is additive (all contributions will add up to 100 per cent). VaR 95 is not additive, owing to the diversification effect.

184. The table below depicts four important aspects of risk. It shows volatility or standard deviation in percentage, followed by VaR 95 for the given portfolio in percentage terms. Contribution to risk indicates how much each asset class is contributing to the total Fund risk. Clearly, total Fund risk is 100 per cent, and each of the asset classes below indicates the contribution to the risk. Expected shortfall at 5 per cent (because the Fund is indicating VaR at 95 per cent) indicates average value or expected value of losses for the 5 per cent of the time when losses exceed VaR 95.

185. All numbers in the tables below are annualized using historical simulation.

(Percentage)

	2017			
Asset class	*Volatility (standard deviation)*	*VaR (95%)*	*Contribution to risk*	*Expected shortfall (5%)*
Total fund	8.10	11.85	100.00	19.84
Total equity	11.35	17.18	84.89	28.79
Fixed income	5.33	8.97	2.29	12.65
Cash and short-term	3.19	5.20	0.43	7.31
Real estate	14.62	26.58	7.52	36.35
Private equity	11.07	16.73	4.49	27.93
Commodities	13.36	22.32	0.12	29.16
Infrastructure	14.36	26.65	0.22	35.90

Note: Figures are reported from MSCI RiskMetrics as at 29 December 2017.

(Percentage)

	2016			
Asset class	*Volatility (standard deviation)*	*VaR (95%)*	*Contribution to risk*	*Expected shortfall (5%)*
Total fund	8.58	13.10	100.00	20.40
Total equity	11.79	18.74	86.72	28.60
Fixed income	4.71	8.06	0.69	11.29
Cash and short-term	0.91	1.60	0.11	2.13
Real estate	14.74	26.79	8.38	36.32
Private equity	11.52	18.15	3.70	28.49
Commodities	13.52	22.57	0.13	29.93
Infrastructure	14.57	26.75	0.27	35.89

Note: Figures are reported from MSCI RiskMetrics as of 31 December 2016.

186. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations. Key assumptions include: a one-day holding period to hedge or dispose of positions, which may not be the case

for illiquid assets or may be due to adverse market conditions; a 95 per cent confidence level, which indicates that there is a 5 per cent probability of losses exceeding the VaR at 95 per cent; VaR calculated on an end-of-day basis, which does not reflect changes during the trading day; and the use of historical data and Monte Carlo simulation, which may not cover all possible scenarios, especially those of an exceptional nature.

Price risk

187. The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments — for example, equity securities — are denominated in currencies other than the United States dollar, the price is initially expressed in non-United States dollar-denominated currency and is then converted into United States dollars, which will also fluctuate because of changes in currency exchange rates.

188. At 31 December 2017 and 31 December 2016, the fair value of equities exposed to price risk was as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Common and preferred stock	36 781 931	31 366 431
Funds — exchange-traded funds	2 595 365	2 646 766
Real estate investment trusts	210 016	240 075
Funds — common stock	146 906	158 361
Stapled securities	50 010	43 841
Total equity instruments	**39 784 228**	**34 455 474**

189. Considering the total Fund risk as 100 per cent, the contribution to risk (total Fund) due to market risk is 89.9 per cent (2016: 93.4 per cent). For the total Fund risk, equities contributed 84.9 per cent (2016: 86.7 per cent) to the total Fund risk and the rest is contributed by all other asset classes.

190. The Fund also manages its exposure to price risk by analysing the investment portfolio by industrial sector and benchmarking the sector weights.

191. The Fund's equity investment portfolio by industrial sector in 2017 and 2016 were as follows:

(Percentage)

	31 December 2017		*31 December 2016*	
General industry classification standards	*Fund's equity portfolio*	*Benchmark*	*Fund's equity portfolio*	*Benchmark*
Financials	18.08	18.74	17.22	18.68
Information technology	17.97	18.09	16.29	15.53
Consumer discretionary	11.78	12.01	11.80	12.10
Energy	5.67	6.38	6.47	7.35
Health care	10.90	10.68	11.05	11.05
Industrials	9.01	10.86	8.62	10.63
Consumer staples	7.72	8.75	8.28	9.48

	31 December 2017		*31 December 2016*	
General industry classification standards	*Fund's equity portfolio*	*Benchmark*	*Fund's equity portfolio*	*Benchmark*
Materials	5.21	5.50	5.05	5.27
Telecommunication services	2.60	3.02	3.11	3.62
Utilities	2.32	2.90	2.39	3.16
Real estate	2.25	3.07	2.01	3.13
Other	6.49	Not applicable	7.71	Not applicable
Total	**100.00**	**100.00**	**100.00**	**100.00**

192. The table below analyses the Fund's concentration of equity price risk in the Fund's equity portfolio by geographical distribution (on the basis of the counterparty's place of primary listing or, if not listed, place of domicile).

(Percentage)

	2017	*2016*
North America	55.0	57.9
Europe	20.7	19.3
Asia-Pacific	12.1	10.7
Emerging markets	11.6	9.9
International regions	0.6	2.2
Total	**100.0**	**100.0**

Currency risk

193. The Fund is one of the most globally diversified pension funds in the world and therefore holds both monetary and non-monetary assets denominated in currencies other than the United States dollar, the Fund's base currency. Currency exchange risk arises as the value of financial instruments denominated in other currencies fluctuates owing to changes in currency exchange rates. Management monitors the exposure to all currencies. The unrealized foreign exchange gain/loss is attributable primarily to the fluctuation in currency exchange rates during the period.

194. The Fund does not use hedging to manage its non-United States dollar-denominated currency risk exposure, because the Fund expects currency impact to net out to zero over a full market cycle, as has been the case historically. Currency risk refers to risk due to foreign exchange rate changes.

195. The tables below illustrate the foreign exchange risk exposure of the Fund by class of investments. These summarize the Fund's cash and investments at fair value as at 31 December 2017 and 31 December 2016, respectively. Net financial liabilities amounting to $178.0 million in 2017 (2016: $39.9 million), not held at fair value (see note 5), are excluded from these tables. Assets held in exchange-traded funds or externally managed specialty funds are included as United States dollar assets.

(Percentage)

Currency	As at 31 December 2017						
	Equity	Fixed income	Real assets	Alternative and others	Short-term	Cash	Total
United States dollar	34.95	9.92	5.08	3.13	1.63	1.20	55.91
Euro	6.56	5.79	0.58	0.59	0.80	0.22	14.54
Japanese yen	4.85	3.64	0.23	–	–	0.04	8.76
British pound sterling	3.61	0.78	0.19	–	–	0.00	4.58
Canadian dollar	1.91	0.62	0.15	–	–	0.00	2.68
Hong Kong dollar	2.48	–	–	–	–	0.01	2.49
Australian dollar	1.33	0.42	0.30	–	–	0.03	2.08
South Korean won	1.13	0.51	–	–	–	–	1.64
Swiss franc	1.62	–	–	–	–	0.01	1.63
Swedish krona	0.71	0.17	–	–	0.13	0.00	1.01
Malaysian ringgit	0.16	0.24	–	–	0.16	0.00	0.56
Mexican peso	0.19	0.32	–	–	–	–	0.51
Indian rupee	0.50	–	–	–	–	0.00	0.50
Norwegian krone	0.05	0.32	–	–	0.12	0.00	0.49
South African rand	0.48	–	–	–	–	–	0.48
Brazilian real	0.43	–	–	–	–	0.00	0.43
Polish zloty	–	0.40	–	–	–	0.00	0.40
Singapore dollar	0.26	0.07	–	–	–	0.00	0.33
Danish krone	0.24	–	–	–	–	0.00	0.24
Czech koruna	–	0.17	–	–	–	–	0.17
Hungarian forint	–	0.13	–	–	–	–	0.13
Philippine peso	0.12	–	–	–	–	0.00	0.12
New Zealand dollar	–	0.11	–	–	–	0.00	0.11
Thai baht	–	0.08	–	–	–	0.00	0.08
Turkish lira	0.07	–	–	–	–	–	0.07
Pakistani rupee	–	–	–	–	–	0.00	0.00
African franc	–	–	–	–	–	0.00	0.00
Chilean peso	–	0.06	–	–	–	0.00	0.06
Total	**61.65**	**23.75**	**6.53**	**3.72**	**2.84**	**1.51**	**100.00**

(Percentage)

Currency	As at 31 December 2016						
	Equity	Fixed income	Real assets	Alternative and others	Short-term	Cash	Total
United States dollar	38.47	11.49	5.64	2.60	0.25	2.52	60.97
Euro	6.09	3.79	0.46	0.45	0.90	0.02	11.71
Japanese yen	4.75	2.48	0.22	–	–	0.00	7.45
British pound sterling	3.64	0.94	0.17	–	–	0.00	4.75
Canadian dollar	1.97	0.67	0.16	–	–	0.00	2.80
Australian dollar	1.24	0.54	0.31	–	–	0.03	2.12

	As at 31 December 2016						
Currency	*Equity*	*Fixed income*	*Real assets*	*Alternative and others*	*Short-term*	*Cash*	*Total*
Hong Kong dollar	2.00	–	–	–	–	0.00	2.00
Swiss franc	1.71	–	–	–	–	0.00	1.71
South Korean won	0.85	0.37	–	–	–	0.00	1.22
Polish zloty	–	0.84	–	–	–	0.09	0.93
Mexican peso	0.17	0.53	–	–	–	0.02	0.72
Swedish krona	0.43	0.18	–	–	–	0.11	0.72
Norwegian krone	0.03	0.31	–	–	0.17	0.00	0.51
Indian rupee	0.39	–	–	–	–	0.06	0.45
Brazilian real	0.40	–	–	–	–	0.00	0.40
South African rand	0.34	–	–	–	–	0.00	0.34
Malaysian ringgit	0.10	0.20	–	–	–	0.01	0.31
Singapore dollar	0.23	0.07	–	–	–	0.00	0.30
Danish krone	0.25	–	–	–	–	0.00	0.25
New Zealand dollar	0.01	0.09	–	–	–	0.00	0.10
Philippine peso	0.10	–	–	–	–	0.00	0.10
Turkish lira	0.08	–	–	–	–	0.00	0.08
Chilean peso	–	0.06	–	–	–	0.00	0.06
Hungarian forint	–	–	–	–	–	0.00	0.00
African franc	–	–	–	–	–	0.00	0.00
Pakistani rupee	–	–	–	–	–	0.00	0.00
Grand total	**63.25**	**22.56**	**6.96**	**3.05**	**1.32**	**2.86%**	**100.00**

Interest rate risk

196. Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flows. The Fund holds fixed interest rate securities, floating rate debt, cash and cash equivalents that expose the Fund to interest rate risk.

197. The table below summarizes the Fund's relative sensitivity to interest rate changes versus its reference benchmark of the Barclays Global Aggregate Bond Index. This measure of duration for the portfolio indicates the approximate percentage change in the value of the portfolio if interest rates change by 100 basis points.

(Percentage)

	2017		*2016*	
	Fund	*Benchmark*	*Fund*	*Benchmark*
Effective duration	6.54	6.99	6.81	6.90

198. Effective duration is the sensitivity to interest rates. This means if the interest rate changes by 1 per cent, the Fund can lose or gain approximately 6.54 per cent (2016: 6.81 per cent) compared with benchmark, which can lose or gain approximately 6.99 per cent (2016: 6.90 per cent). This arises primarily from the increase/decrease in the fair value of fixed interest securities.

Note 22
Budget information

22.1 Movement between original and final budgets

(Thousands of United States dollars)

	Revised appropriation 2017	*2016 budget balance carried forward*	*Approved increases/decreases*	*Final appropriation 2017*
Administrative costs	45 607	6 713	5 165	57 485
Investment costs	42 373	15 464	(10 178)	47 659
Audit costs	1 427	162	(78)	1 511
Board expenses	489	60	–	549
Total	**89 896**	**22 399**	**(5 091)**	**107 204**

199. An explanation of the changes between the revised appropriation and the final appropriation for the biennium 2016–2017 can be found in paragraphs 6–42 of the report of the Pension Fund on the administrative expenses of the Fund (A/72/383). In its resolution 72/262 (sect. XV, para. 27), the General Assembly approved the final appropriation for the administrative expenses of the Fund for the biennium 2016–2017.

22.2 Reconciliation between the actual amounts on a comparable basis and the statement of changes in net assets available for benefits

200. Differences between the actual amounts on a comparable basis with the budget and the actual amounts recognized in the financial statements can be classified into the following:

(a) Basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis, as stated in note 3.14;

(b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for the Pension Fund for the purpose of comparison of budget and actual amounts;

(c) Entity differences, which occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared. There are no entity differences for the Pension Fund.

(Thousands of United States dollars)

	2017	*2016*
Actual amount on a comparable basis[a]	81 862	58 363
Basis differences		
Asset additions/disposals	(190)	(2 930)
Depreciation, amortization and impairment	7 963	8 142
Unliquidated obligations	(2 794)	1 159
Prepayments	(956)	289

	2017	*2016*
Employee benefits	17 621	6 333
Other accruals	(6 106)	3 408
Actual amount for administrative expenses in the statement of changes in net assets available for benefits	**97 400**	**74 764**

[a] "Actual amount on a comparable basis" refers to the actual amounts of the administrative expenditure related to the Pension Fund and does not include the expenditure related to the United Nations.

201. The above reconciliation illustrates key differences between total administrative expenditure on a budget basis (modified cash basis) and total expenditure on an IPSAS basis. The main differences can be categorized as follows:

- *Depreciation/amortization expense*. Fixed assets and intangible assets meeting the threshold for capitalization are capitalized and depreciated/amortized over their useful lives on an IPSAS basis. Only depreciation/amortization expense is recognized over the useful lives of the asset, whereas the total expense is recognized on a budget basis at the time of acquisition.
- *Expense recognition*. On a budget basis, expenditure is recognized at the time of disbursement or commitment as unliquidated obligations. Under IPSAS, expenses are recognized at the time goods or services have been received. Unliquidated obligations for goods or services not received or prepayments are not recognized as expense. Economic services received but not paid for are recognized as expense under IPSAS.
- *Employee benefits*. On a budget basis, employee benefit expenses are recognized when the benefit is paid. Under IPSAS, an expense for an employee benefit should be recognized in the period in which the benefit is earned, regardless of time of payment. IPSAS therefore recognizes expenses for post-employment benefits such as after-service health insurance, annual leave or repatriation benefits.

Note 23
Funds under management

202. Funds under management are defined as other United Nations funds for which the Fund has engaged the services of external fund managers, independent of the Fund.

203. Pursuant to General Assembly resolution 2951 (XXVII) of 11 December 1972 establishing the United Nations University and Assembly resolution 3081 (XXVIII) and article IX of the charter of the University (A/9149/Add.2), the Investment Management Division is providing oversight services for the investments of the United Nations University Endowment Fund that are currently outsourced to Nikko Asset Management Co. Ltd. up to 20 November 2017 and subsequently to BlackRock Financial Management Inc. with a separate custodian bank. Formal arrangements between the Investment Management Division and the Endowment Fund regarding these services have been agreed upon. Resulting funds are reflected in the accounts of the United Nations University. There is no commingling of investment funds with those of the Pension Fund, which are maintained separately. The costs of Investment Management Division management advisory fees amounting to $50,000 per year are reimbursed by the Endowment Fund to the Division and recorded as other income.

Note 24
Related party transactions

Key management personnel

204. Key management personnel remunerated by the Fund for the years ended 31 December 2017 and 31 December 2016 are as follows:

	Number of individuals	*Compensation and post adjustment*	*Entitlements*	*Pension and health plans*	*Total remuneration*	*Outstanding advances against entitlements*	*Outstanding loans*
				(Thousands of United States dollars)			
2017	5	1 027	286	240	1 553	–	–
2016	5	907	129	208	1 244	–	–

205. Key management personnel are the Chief Executive Officer, the Representative of the Secretary-General, the Deputy Chief Executive Officer, the Director of the Investment Management Division and the Chief Financial Officer, as they have the authority and responsibility for planning, directing and controlling the activities of the Pension Fund.

206. The aggregate remuneration paid to key management personnel includes: net salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effect shipment costs, and employer pension and current health insurance contributions.

207. There are no outstanding advances against entitlements of key management personnel as at 31 December 2017 and 31 December 2016.

208. Key management personnel are also qualified for post-employment benefits (see note 11) at the same level as other employees. The actuarial valuation of the benefits for key management personnel are as follows:

(Thousands of United States dollars)

	As at 31 December 2017	*As at 31 December 2016*
After-service health insurance	1 458	1 203
Repatriation grant	164	80
Annual leave	127	105
Death benefit	–	2
Total	**1 749**	**1 390**

Other related parties

209. While no transactions occurred with the following parties, they are considered as related parties, and a summary of the Fund's relationship with these parties is provided below.

General Assembly

210. The General Assembly is the highest legislative body for the Fund. It reviews reports submitted by the Pension Board, approves the budgets for the Fund, decides on the admittance of new member organizations to the Fund and amends the Regulations of the Fund.

Member organizations participating in the Fund

211. The member organizations of the Fund (which are international intergovernmental organizations) join the Fund by decision of the General Assembly and, at the time of admission, agree to adhere to the Regulations of the Fund. Each member organization has a staff pension committee and a secretary to the committee; the committees and their secretariat are an integral part of the Fund's administration.

United Nations International Computing Centre

212. The United Nations International Computing Centre was established in January 1971 pursuant to General Assembly resolution 2741 (XXV). The Centre provides information technology and communications services to partners and users in the United Nations system. As a partner bound by the mandate of the Centre, the Fund would be proportionately responsible for any third-party claim or liability arising from or related to service activities of the Centre, as specified in the Centre's mandate. At 31 December 2017, there are no known claims having an impact on the Fund. Ownership of assets is with the Centre until dissolution. Upon dissolution, the division of all assets and liabilities among partner organizations shall be agreed upon by the Management Committee by a formula defined at that time.

213. The role of the Centre is:

- To provide information technology services on a full cost-recovery basis
- To assist in exploiting networking and computing technology
- To provide information management services
- To advise on questions related to information management
- To provide specialized training

Note 25
Reclassification and comparative numbers

214. The Fund manages its investments on the basis of a total-return-on-investment approach. Foreign exchange gains and losses are managed as part of total return on investment. Accordingly, from the perspective of understanding the performance of investment activities during the year, changes due to market value and changes due to exchange rate are considered together.

215. Historically, the Fund disclosed changes due to market value and changes due to exchange rate as separate line items in the statement of changes in net assets. Furthermore, the Fund disclosed changes due to market price by asset class, whereas changes due to exchange rate were not presented by asset class.

216. Beginning in 2017, the Fund has updated the disclosure such that it provides more meaningful information to users of the financial statements by presenting change in fair value of investments by asset class along with analysis of change in market price and currency exchange rate for each asset class. See note 13 for additional and updated disclosure.

217. As a result, certain line items have been amended in the statement of changes in net assets available for benefits and related notes to the financial statements. All comparative figures have been adjusted to conform to the current-year classification. The reclassification has no impact on net assets available for benefits.

218. The net zero effect of the change is summarized below.

(Thousands of United States dollars)

	Previously reported 2016	*Adjustment*	*After reclassification 2016*
Investment income			
Change in fair value of assets designated at fair value	–	1 582 604	1 582 604
Net appreciation in fair value of investments	2 262 071	(2 262 071)	–
Interest income	325 786	–	325 786
Dividend income	821 651	–	821 651
Income from real assets	55 015	–	55 015
Foreign currency (losses)	(679 882)	679 882	–
Less: transaction costs and management fees	(117 494)	–	(117 494)
	2 667 147	**415**	**2 667 562**
Contributions	2 273 498	–	2 273 498
Other income	3 368	–	3 368
Benefit expenses			
From withdrawal settlements and full commutation benefits	117 395	–	117 395
From retirement benefits	2 391 291	–	2 391 291
Other benefits/adjustments	(2 566)	415	(2 151)
	2 506 120	**415**	**2 506 535**
Administrative expenses	74 764	–	74 764
Other expenses	1 282	–	1 282
Withholding tax expense	3 749	–	3 749
Increase in net assets available for benefits	**2 358 098**	–	**2 358 098**

Note 26
Subsequent events

219. At the time of signing these financial statements, the management of the Fund is not aware of any reportable event after the reporting date in accordance with IPSAS 14. Only he Fund's management has the authority to amend these financial statements.

Annex to the notes to the financial statements

Statistics on the operations of the United Nations Joint Staff Pension Fund

Table 1
Number of participants

Member organization	Participants as at 31 December 2016	New entrants	Transfer		Separations	Adjustments[a]	Participants as at 31 December 2017[b]	Percentage increase (decrease)
			In	Out				
United Nations[c]	87 111	7 314	185	(279)	(8 839)	(483)	85 009	(2.4)
International Labour Organization	3 706	324	28	(16)	(400)	(13)	3 629	(2.1)
Food and Agriculture Organization of the United Nations	10 318	1 038	83	(80)	(683)	(143)	10 533	2.1
United Nations Educational, Scientific and Cultural Organization	2 412	178	14	(7)	(162)	(1)	2 434	0.9
World Health Organization	10 724	942	101	(64)	(937)	(34)	10 732	0.1
International Civil Aviation Organization	798	66	11	(5)	(69)	(2)	799	0.1
World Meteorological Organization	351	20	7	(2)	(25)	(1)	350	(0.3)
International Atomic Energy Agency	2 681	213	23	(28)	(207)	(3)	2 679	(0.1)
International Maritime Organization	284	14	2	(1)	(20)	1	280	(1.4)
International Telecommunication Union	768	31	10	(4)	(80)	(4)	721	(6.1)
World Intellectual Property Organization	1 225	65	7	(10)	(75)	(3)	1 209	(1.3)
International Fund for Agricultural Development	595	17	15	(7)	(38)	(2)	580	(2.5)
International Centre for the Study of the Preservation and Restoration of Cultural Property	37	4	–	–	(2)	–	39	5.4
European and Mediterranean Plant Protection Organization	18	1	–	–	(1)	–	18	0.0
International Centre for Genetic Engineering and Biotechnology	168	12	1	–	(6)	–	175	4.2
World Tourism Organization	91	1	–	–	(10)	1	83	(8.8)
International Tribunal for the Law of the Sea	39	2	1	–	(1)	–	41	5.1
International Seabed Authority	35	6	2	–	(5)	–	38	8.6
United Nations Industrial Development Organization	669	64	4	(7)	(55)	(2)	673	0.6
International Criminal Court	1 099	115	35	(15)	(67)	–	1 167	6.2
Inter-Parliamentary Union	47	1	–	(1)	(2)	–	45	(4.3)
International Organization for Migration	4 624	914	23	(19)	(490)	–	5 052	9.3
Special Tribunal for Lebanon	462	35	13	(20)	(37)	(3)	450	(2.6)
Total	**128 262**	**11 377**	**565**	**(565)**	**(12 211)**	**(692)**	**126 736**	**(1.2)**

[a] Corrections of erroneous entries from prior years.

[b] The methodology for the calculation of participants as at 31 December 2017 was changed. The comparable number of participants calculated using the method employed for 31 December 2016 is a total of 129,354 (representing an increase of 1,092, or 0.9 per cent). Further information on the methodology change and the rationale is provided in the note to the present annex.

[c] United Nations Headquarters, regional offices and all funds and programmes.

Table 2

Benefits awarded to participants or their beneficiaries during the year ended 31 December 2017

Member organization	*Number of benefits awarded*											
				Withdrawal settlement								
	Retirement benefit	*Early retirement benefit*	*Deferred retirement benefit*	*Under 5 years*	*Over 5 years*	*Child benefit*	*Widow and widower benefit*	*Other death benefit*	*Disability benefit*	*Secondary dependant benefit*	*Transfer under agreement*	*Total*
United Nations[a]	1 338	553	174	3 879	2 623	1 649	137	1	86	3	–	10 443
International Labour Organization	84	26	9	213	59	42	2	–	5	–	–	440
Food and Agriculture Organization of the United Nations	191	87	15	274	88	219	12	–	9	–	–	895
United Nations Educational, Scientific and Cultural Organization	77	12	6	50	8	32	2	–	6	–	–	193
World Health Organization	254	83	32	442	96	189	12	–	16	–	–	1 124
International Civil Aviation Organization	26	16	2	19	3	13	1	–	2	–	–	82
World Meteorological Organization	8	8	–	7	–	1	1	–	1	–	–	26
International Atomic Energy Agency	89	22	15	64	11	19	–	–	5	–	–	225
International Maritime Organization	12	–	–	7	–	2	1	–	–	–	–	22
International Telecommunication Union	31	23	–	16	7	20	1	–	2	–	–	100
World Intellectual Property Organization	16	18	–	27	7	11	–	–	7	–	–	86
International Fund for Agricultural Development	15	5	–	11	3	8	–	–	1	–	–	43
International Centre for the Study of the Preservation and Restoration of Cultural Property	2	–	–	–	–	–	–	–	–	–	–	2
European and Mediterranean Plant Protection Organization	–	1	–	–	–	–	–	–	–	–	–	1
International Centre for Genetic Engineering and Biotechnology	1	–	–	3	2	–	–	–	–	–	–	6
World Tourism Organization	8	2	–	–	–	–	–	–	–	–	–	10
International Tribunal for the Law of the Sea	1	–	–	–	–	1	–	–	–	–	–	2
International Seabed Authority	2	–	–	2	1	–	–	–	–	–	–	5
United Nations Industrial Development Organization	20	15	–	11	5	12	1	–	3	–	–	67
International Criminal Court	5	1	–	42	18	–	1	–	–	–	–	67
Inter-Parliamentary Union	1	–	–	1	–	3	–	–	–	–	–	5
International Organization for Migration	18	2	5	297	158	21	2	–	1	–	–	504
Special Tribunal for Lebanon	1	1	1	25	9	–	–	–	–	–	–	37
Total	**2 200**	**875**	**259**	**5 390**	**3 098**	**2 242**	**173**	**1**	**144**	**3**	**–**	**14 385**

[a] United Nations Headquarters, regional offices and all funds and programmes.

Table 3

Analysis of periodic benefits for the year ended 31 December 2017

Type of benefit	*Total as at 31 December 2016*	*New*	*Benefits discontinued, resulting in award of survivor benefit*	*All other benefits discontinued*	*Total as at 31 December 2017*[a]
Retirement	27 664	2 200	(337)	(410)	29 117
Early retirement	16 110	875	(200)	(225)	16 560
Deferred retirement	7 548	259	(60)	(155)	7 592
Widow	11 239	152	769	(480)	11 680
Widower	968	21	110	(49)	1 050
Disability	1 500	144	(34)	(27)	1 583
Child	9 721	2 242	23	(1 357)	10 629
Secondary dependant	38	3	–	(5)	36
Total	**74 788**	**5 896**	**271**	**(2 708)**	**78 247**

[a] The methodology for the calculation of periodic benefits as at 31 December 2017 was changed. The comparable number of periodic benefits in payment calculated using the method employed for 31 December 2016 is a total of 74,092 (representing a decrease of 696, or 0.9 per cent). Further information on the methodology change and the rationale is provided in the note to the present annex.

Note to the annex to the financial statements for the year ended 31 December 2017

The United Nations Joint Staff Pension Fund prepares the annex to the financial statements with the statistics on the operations of the Fund on an annual basis.

Until the year 2016, the statistics were presented as at 31 December of the related reporting year, reflecting all information available as at that date. Accordingly, information becoming available after 31 December was not reflected.

The Fund decided to align the methodology used for the statistical data as at 31 December 2017 with the approach used for the financial statements. Therefore, the statistics as at 31 December 2017 now reflect all information available at the time of the cut-off date, 7 April 2018. In particular, the benefit entitlements processed in the first quarter of the next fiscal year, for which the participant's separation occurred in or prior to the fiscal year being reported, are no longer included in the participant headcount. The related benefits processed are reflected in table 2, and those beneficiaries in receipt of a periodic benefit are presented in table 3.

The census data compiled by the Fund and provided to the consulting actuary for preparation of the actuarial valuation of the Fund's benefit liability are established on the same basis.

Accordingly, the data presented in the annex as at 31 December 2016 and the data presented as at 31 December 2017 are not comparable, as they are prepared on the basis of different approaches.

In addition, table 1 reflects a reduction in 2017 of corrections made owing to erroneous entries in the Fund's system made during prior periods.

Annex IX

Report of the Board of Auditors on the financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2017: audit opinion

Opinion

We have audited the financial statements of the United Nations Joint Staff Pension Fund, which comprise the statement of net assets available for benefits (statement I) as at 31 December 2017 and the statement of changes in net assets available for benefits (statement II), the cash flow statement (statement III), the statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the biennium 2016–17 (statement IV) and the statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the year 2017 (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for benefits of the United Nations Joint Staff Pension Fund as at 31 December 2017 and the changes in net assets available for benefits and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS) and International Accounting Standard 26.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of the Fund, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The Chief Executive Officer and the Representative of the Secretary-General are jointly responsible for the other information, which comprises the financial report for the year ended 31 December 2017, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The Chief Executive Officer and the Representative of the Secretary-General are jointly responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and International Accounting Standard 26 and for such internal control as the management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless the Fund intends either to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Fund.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Fund.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Draw conclusions as to the appropriateness of the management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of the Fund to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the Fund that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and the financial rules of the United Nations Joint Staff Pension Fund and their legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the United Nations Joint Staff Pension Fund.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

Annex X

Long-form report of the Board of Auditors on the financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2017

Summary

The United Nations Joint Staff Pension Fund was established in 1949 by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and other organizations admitted to the membership of the Fund. It is administered by the United Nations Joint Staff Pension Board.

The Board of Auditors audited the financial statements of the Fund and reviewed its operations for the year ended 31 December 2017 in accordance with General Assembly resolutions 74 (I) of 1946 and 680 (VII) of 1952 and in conformity with article VII of the Financial Regulations and Rules of the United Nations and the International Standards on Auditing. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly depict the state of affairs of the Fund as at 31 December 2017 and were in accordance with the International Public Sector Accounting Standards (IPSAS) and International Accounting Standard (IAS) 26. The audit was carried out through a review of the financial transactions and operations at the Fund's headquarters in New York, covering both the Investment Management Division and the Secretariat of the Fund. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

Audit opinion

The Board issued an unqualified opinion on the financial statements of the Fund as reflected in the present report.

Overall conclusion

The Fund has successfully prepared financial statements in accordance with IAS 26 and following the provisions of IPSAS since 2012. While there were no material deficiencies in the financial statements prepared by the Fund, the Board identified scope for improvements in the disclosures in the notes to the financial statements that would enhance the completeness and transparency of the information provided to the stakeholders.

There is scope for improvement in processing pension benefits. The Fund should take proactive steps in collaboration with member organizations to expedite the receipt of the documents required for calculating and awarding pension benefits. There is also a need to plug some deficiencies in the Integrated Pension Administration System, streamline the procedures for obtaining the certificate of entitlement and improve the client grievance management system. On investment management side of operation, the Fund needs to strengthen risk management and the management of foreign currency exposure and improve the planning and execution of critical software such as the trade order management software.

Key findings

Benefits payment management

The Fund internally divides benefit processing cases into two categories, namely, actionable and non-actionable cases. The Fund considers cases received with the core required documents as actionable cases and other cases as non-actionable cases. The Fund categorized 15,125 cases as actionable and had 16,427 workflows pending owing to non-receipt of documents and 12,982 workflows pending because of system issues in the Integrated Pension Administration System in 2017.

Actionable cases

The Board noted that the 15,125 cases considered as actionable during 2017 included an opening balance of 3,627 cases on 1 January 2017 and 11,498 cases received during the year. Of those, the Fund processed 9,588 cases (63.4 per cent) up to 31 December 2017, leaving a balance of 5,537 cases (36.6 per cent) outstanding. The Board observed a significant increase of 52.66 per cent in the number of cases outstanding at the end of 2017, compared with the number outstanding at the end of 2016. Moreover, the Fund has processed 703 fewer cases in 2017 than in 2016, when it processed 10,291 cases.

The Fund processed 62 per cent of cases during 2017 within the prescribed time limit of 15 business days, which was higher than the 27 per cent achieved in 2016, but still short of the internal target of 75 per cent. The Board also noted that 527 actionable cases were processed with a delay of six months and 303 actionable cases with a delay of more than a year.

It is important for the Fund to process all cases within a reasonable period of time, otherwise there will be dissatisfaction among the separating employees.

Open workflows and non-actionable cases

Workflows that remained open owing to system deficiencies in the Integrated Pension Administration System

The Fund implemented the Integrated Pension Administration System in order to automate the processing of benefits. The system went live in August 2015. Under the system, a workflow is opened on receipt of a separation document. As at 31 December 2017, 12,982 workflows remained open owing to various system issues. The Fund informed the Board that by 30 April 2018 it had corrected some of the system issues and only 3,557 workflows remained open owing to systemic issues.

The systemic issues in the Integrated Pension Administration System pose a serious challenge to the stability of the system and strongly indicate the need for an independent examination of the Integrated Pension Administration System to get assurance of its reliable operation.

Workflows that remained open owing to non-receipt of documents

As at 31 December 2017, there were 16,427 cases that were non-actionable owing to non-receipt of documents. In 1,969 of those cases, the separation personnel action had not been received by the Fund. The Board observed that the Fund has a fully functional human resources interface with the member organizations through which it is expected to automatically receive the separation personnel action. Hence, the Fund needs to review the reason for non-receipt of the separation personnel action in all of those cases.

The Board also noted that in 8,560 cases, the separation notification had not been received from the member organization. This indicates that the member organizations and the Fund need to improve coordination and ensure the timely submission of the information and documents required to process the benefits.

The delay in processing of benefits owing to delay in receipt of essential documents has been repeatedly highlighted in the previous reports of the Board (see A/71/5/Add.16 and A/72/5/Add.16). In order to find out the causes of delay and to find solutions to the problem, the Fund undertook an "end-to-end review" of the separation processes with the help of an external consultant and the participation of five member organizations. The review also included the issues highlighted by the Board in its previous reports.

Certificate of entitlement

Benefits of retirees and beneficiaries are suspended owing to non-receipt of a certificate of entitlement by the Fund, which may occur as a result of a change of address of the beneficiary of which the Fund is not informed, or a malfunction of the postal service. Non-matching of signatures can also be a reason for suspension of the benefits.

Of a total of 1,619 cases of suspended benefits as at 31 December 2017, certificate of entitlement forms in respect of 937 cases were pending from the years 2006 to 2016. The long-pending cases point to the need for concentrated efforts to streamline the system of processing of certificates of entitlement.

The Board observed that the procedure followed in processing certificates of entitlement is cumbersome for both the Fund and the beneficiaries, considering that the latter are located all over the world.

Investment Management Division

Management of foreign currency gains and losses

Open exposure to foreign currency volatility brings with it the risk of reduced returns or even capital erosion. The Fund gained $1,684.73 million on account of foreign currency fluctuation during 2017, while it suffered losses on the same account in the preceding years 2013 to 2016. The currency impact on the Fund's return over 3, 5 and 10 years was (-) 0.43 per cent, (-) 1.68 per cent and (-) 0.91 per respectively cent. respectively.

In its previous reports (see A/70/5/Add.16, A/71/5/Add.16 and A/72/5/Add.16), the Board has raised concerns over foreign currency losses affecting the Fund's performance. On the recommendation of the Board, the Fund conducted a formal currency study in 2017, as a result of which it was recommended, inter alia, that the currency exposure relative to liabilities be reduced to the extent possible, taking into account cost-effectiveness and operational feasibility. The study also recommended that details of the currency composition of the liabilities be included in the next asset and liability management study.

The Board observed that, as at 31 December 2017, 44.09 per cent of the total investments of the Fund were in currencies other than the United States dollar, which exposed it to foreign currency fluctuation risk and associated risks. The Board is of the opinion that it is important to have specific guidelines on the position to be taken and currency exposure to be maintained for each class of asset. The Board noted that the Fund did not prepare such a guideline for currency exposure under each asset class relative to the respective benchmarks.

Planning and acquisition of the trade order management system

The Fund adopted the Bloomberg Asset and Investment Manager as its trade order management system in 2015. It was selected through a non-competitive process. Presently, the Bloomberg Asset and Investment Manager, which is one of the critical systems, is being used extensively to provide a front-to-back solution.

The contract for the Bloomberg Asset and Investment Manager was a stop-gap arrangement for a three-year period (29 July 2015 to 28 July 2018) and subject to a comprehensive assessment for the awarding of a contract for the system through a competitive bidding process. The Board noted that only in June 2017 was a consultant hired to conduct the comprehensive assessment, and that no request for proposal had been initiated for awarding the contract for a new trade order management system. Meanwhile, it was proposed that the contract for the Bloomberg system be extended for two years, with the possibility of a further two-year extension, such that the contract could be in force until 28 July 2022. The Fund informed the Board that the Investment Management Division would be working on the new order management system in 2020.

The Board observed that the Investment Management Division has estimated that it will take more than three years to get a new system implemented after floating the request for proposal. Hence, if the Division were to start working on the request for proposal in 2020, the new system would not get implemented before the end of the present contract for the Bloomberg system. Therefore, it is evident that the Fund has not properly planned for the acquisition of a critical system.

Fraud risk assessment

According to the information circular issued in September 2016 concerning the Anti-Fraud and Anti-Corruption framework of the United Nations Secretariat (ST/IC/2016/25), systematic fraud risk assessments should be undertaken in accordance with the Secretariat's enterprise risk management and internal control policy and methodology. In compliance with the circular, a fraud risk assessment is being conducted by the Fund secretariat. However, the Investment Management Division did not carry out any fraud risk assessment.

The Board observed that a fraud risk assessment is important for the Investment Management Division as well, in view of the substantial amount of assets it is managing.

Main recommendations

The Board recommends that the United Nations Joint Staff Pension Fund:

Benefits payment management

Actionable cases

(a) **Process the cases pending for a long time on a priority basis and in a time-bound manner;**

Open workflows and non-actionable cases

(b) **Undertake a data cleansing exercise to identify and close all of the workflows that remain open owing to issues in the Integrated Pension Administration System;**

(c) **Have a system audit done of the Integrated Pension Administration System to identify the deficiencies and issues in the system so that they can be corrected;**

(d) **Engage with member organizations and resolve the issues in transmission to the Fund of the documents required for the processing of pension benefits;**

(e) **Develop a system for receiving the required documents through a secure electronic interface;**

Certificate of entitlement

(f) **Review the process of obtaining the certificate of entitlement and the suspended cases that have been on hold for an extended period;**

(g) **Develop an automatic signature verification system to facilitate the certificate of entitlement process;**

Investment Management Division

Management of foreign currency gains and losses

(h) **Take expeditious action on the recommendations of the currency study to reduce the effect of foreign exchange volatility on its return on investments;**

(i) **Expedite the asset and liability management study for alignment of its currency exposure with liabilities;**

(j) **Evolve suitable strategies and an action plan to manage the foreign currency risks on the basis of the results of the asset and liability management study;**

Planning and acquisition of the trade order management system

(k) **Properly plan and execute the acquisition of critical software;**

Fraud risk assessment

(l) **Conduct a fraud risk assessment in respect of the Investment Management Division to identify the vulnerable areas and develop a suitable mitigation strategy.**

Key facts	
23	Number of member organizations
126,736	Participants in the Fund
78,247	Periodic benefits
$64.78 billion	Total assets (2016: $54.73 billion)
$64.37 billion	Net assets available for benefits (2016: $54.49 billion)
$12.65 billion	Income and contributions (2016: $4.94 billion)
$2.78 billion	Total expenses, including benefit payments (2016: $2.59 billion)
$10.24 billion	Investment income (2016: $2.67 billion)
16.5 per cent	Inflation-adjusted real return for 2017 (2016: 3.1 per cent)

A. Mandate, scope and methodology

1. The United Nations Joint Staff Pension Fund was established in 1949 by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and other organizations admitted to the membership of the Fund. It is administered by the United Nations Joint Staff Pension Board and currently has 23 participating organizations, including the United Nations. The Fund is a multiple employer, defined benefit plan.

2. The Board of Auditors has audited the financial statements of the United Nations Joint Staff Pension Fund and has reviewed its operations for the year ended 31 December 2017 in accordance with General Assembly resolutions 74 (I) of 1946 and 680 (VII) of 1952. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the United Nations Joint Staff Pension Fund as at 31 December 2017 and its financial performance for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS) and International Accounting Standard 26. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenses had been properly classified and recorded. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board reviewed the operations of the Fund under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations. This allows the Board to make observations with respect to compliance with the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of the Fund operations. The Board coordinated with the Office of Internal Oversight

Services in the planning of its audits in order to avoid duplication of effort and to determine the extent to which the Board could rely on the latter's work.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with management, whose views have been appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up to previous recommendations

6. The Board followed up on the 41 outstanding recommendations and noted that 20 (48.78 per cent; in 2016: 19.23 per cent) had been fully implemented, 19 (46.33 per cent; in 2016: 80.77 per cent) were under implementation and 2 (4.89 per cent) had not been implemented.[4] The details are provided in the annex.

7. The Board noted the improvement in the progress of implementation of recommendations when compared with the previous year. The Board also noted that there were still a number of important recommendations related to pension processing and investment management that were under implementation. Some of the important recommendations under implementation related to the following issues:

(a) Ensuring adherence to benchmarks for processing of benefits;

(b) Improving the grievance redressal mechanism;

(c) Prescribing a time frame for servicing different types of cases, keeping their complexity in mind;

(d) Simplifying the process of obtaining the certificate of entitlement;

(e) Devising a mechanism to assess the value addition to performance owing to active management of the portfolio;

(f) Developing an internal mechanism to monitor, evaluate and manage losses or gains owing to foreign exchange;

(g) Preparing a detailed risk budget for all classes of assets.

2. Financial overview

8. As at 31 December 2017, the total assets of the Fund amounted to $64.78 billion (2016: $54.73 billion) and the total liabilities amounted to $411.29 million (2016: $237.64 million), making net assets available for benefits of $64.37 billion (2016: $54.49 billion). This represented an increase of $9.88 billion in the net assets available for benefits compared with an increase of $2.36 billion in 2016. The fair value of the total investment by the Fund as at 31 December 2017 was $64.54 billion, comprising $39.78 billion in equities, $15.33 billion in fixed-income securities, $4.21 billion in real assets, $2.40 billion in alternative and other investments and $2.81 billion in cash and short-term investments. The percentage share of each component in the fair value of investment is shown in figure II.I.

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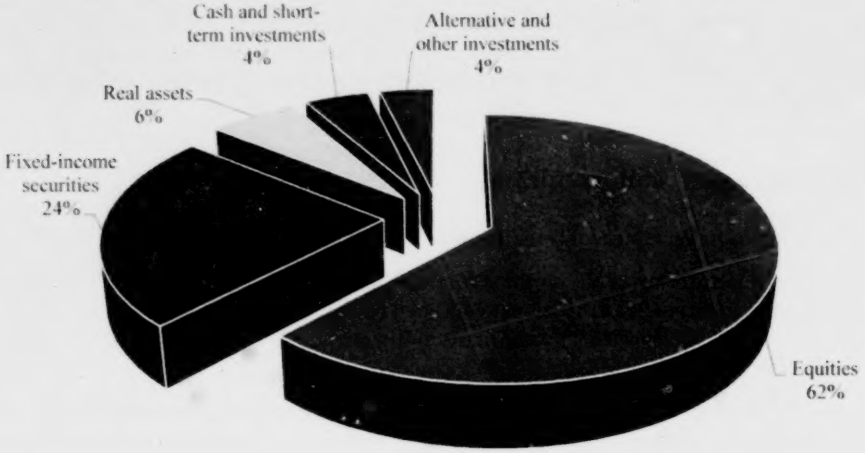
[4] One of the two unimplemented recommendations was issued to the Fund's member organizations in regard to the need to identify separation cases and submit them to the Fund sufficiently in advance.

Figure II.I

Percentage share of components in the fair value of investment in 2017

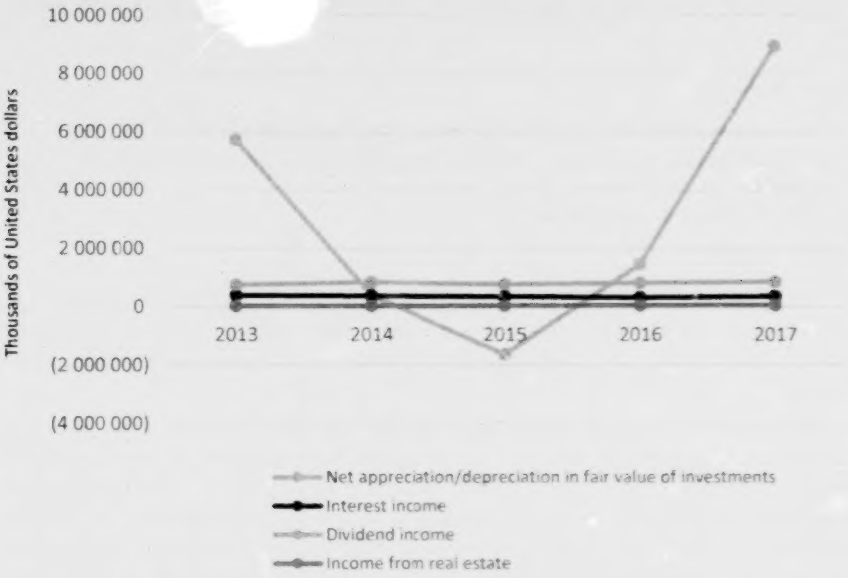


Source: United Nations Joint Staff Pension Fund financial statements.

9. The total income of the Fund in 2017 was $12.65 billion (2016: $4.94 billion), comprising investment income of $10.24 billion (2016: $2.67 billion), contributions of $2.40 billion (2016: $2.27 billion) and other income of $11.62 million (2016: $3.37 million). The total expenses of the Fund in 2017 were $2.78 billion (2016: $2.59 billion), comprising benefit payments of $2.67 billion (2016: $2.51 billion) and administrative expenses and other expenses of $102.73 million (2016: $79.8 million).

10. In the year 2017, the total investment income of the Fund was $10.24 billion, including appreciation in the fair value of the investments of $9.08 billion (2016: $1.58 billion). The appreciation included a foreign currency gain of $1.68 billion (2016: foreign currency loss of $679.88 million). Historically, appreciation/depreciation in the fair value of investment has been the driving force for investment income. The other components have largely remained constant. The different components of investment income are shown in figure II.II.

Figure II.II
Components of investment income, 2013–2017



Source: United Nations Joint Staff Pension Fund financial statements.

11. The Fund return (nominal) for the year 2017 was at 18.61 per cent in comparison with the policy benchmark of 18.14 per cent. The inflation-adjusted real return was 16.5 per cent against the required 3.5 per cent set as a long-term investment goal, owing to high appreciation in the fair value of the investments.

12. As at 31 December 2017, the Fund had 126,736 participants (2016: 128,262) and distributed 78,247 periodic benefits (2016: 74,788). In 2017, the Fund changed the methodology for calculating the number of participants and periodic benefits as at the end of the year, as presented by the Fund in the annex to the financial statements. Until 2016, the data reflected the information available on 31 December of the year in question. Under the new methodology employed in the present financial statements, the data reflect the information available at the time of the cut-off date, 7 April 2018. If the old methodology had been applied in 2017, the number of participants would have been 129,354 and the number of periodic benefits would have been 74,092.

Actuarial valuation

13. Article 12 of the Regulations of the Fund provides that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years. It also provides that the actuarial report shall state the assumptions on which the calculations are based, describe the methods of valuation used and state the results. Currently, the Fund is carrying out an actuarial valuation every two years. For the valuation done as at 31 December 2015, the Board pointed out discrepancies in the data relating to active participants and beneficiaries. The Fund discarded that valuation and decided to roll forward the actuarial valuation done as at 31 December 2013 to the subsequent four years.

14. The Fund carried out the actuarial valuation to ascertain its position as at 31 December 2017. The valuation revealed an actuarial deficit of $184.2 million. The actuarial valuation of the Fund's assets was at $145.87 billion and that of the liabilities at $146.05 billion. Therefore, the Fund is at the funding level of 99.88 per cent.

Financial statements

15. Various suggestions made by the Board for enhancement of disclosures to the financial statements were reflected in the final version of the statements.

3. Benefits payment management

Benefits processing

16. The Fund provides retirement, death, disability and related benefits to the staff members of the United Nations and the other member organizations. The payment of benefits is governed by the Regulations, Rules and Pension Adjustment System of the Fund.

17. To process a benefit, the Fund requires three documents. The member organization is required to send two documents to the Fund, namely, the separation notification[5] and the separation personnel action.[6] The third document, the payment instruction form,[7] is sent by the separating employee. The Fund can retrieve the separation personnel action through the human resources interface with the member organization. Therefore, now the Fund requires only the separation notification from the member organizations and the payment instruction from the separating employee to process the case.

18. Under the strategic framework approved by the Pension Board, the Fund is required to increase the percentage of withdrawal settlements, retirement benefits and other benefits processed in 15 business days. According to the internal targets, 75 per cent of the cases received by the Fund are to be processed within 15 business days. However, with regard to the processing time, there is no prioritization or separate timeline for processing cases according to the nature of the case or the complexity of the processing; for example, the timeline for a death benefit case is the same as that of a separation benefit case, even though these cases differ in their nature and complexity.

19. The Board noted that the Fund internally divides the cases into two categories, namely, actionable and non-actionable cases. The Fund considers cases received along with all the required documents as actionable cases and other cases as non-actionable. The Fund categorized a total of 15,125 cases as actionable and 29,409 as non-actionable in 2017.

20. The Board of Auditors analysed the data pertaining to the cases processed by the Fund during 2017 to examine adherence to the targets set by the Pension Board in the strategic framework. The analysis is presented in the following paragraphs.

Actionable cases

21. The Board noted that the Fund considered 15,125 cases as actionable during 2017, which included an opening balance of 3,627 cases as at 1 January 2017 and

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[5] The separation notification is the notification of separation issued by the organization.

[6] The separation personnel action is the general information and employment history of the employee.

[7] The payment instruction form contains the beneficiary's specification of preferred mode of payment and related details required to release the payment of benefit.

11,498 cases received during the year. Of these, the Fund processed 9,588 cases (63.4 per cent) up to 31 December 2017, leaving a balance of 5,537 cases (36.6 per cent) to be processed. The Board observed a significant increase of 52.66 per cent in the balance of cases outstanding at the end of the year 2017 over those outstanding at the end of 2016, owing mainly to an increase in deferred benefits. The Fund had processed 10,291 cases in 2016. Therefore, the Fund has processed 703 fewer cases in 2017 than in 2016.

22. Table II.1 depicts the time taken to process the 9,588 cases processed in the Integrated Pension Administration System in 2017, broken down by benefit category.

Table II.1
Ageing analysis (from date of receipt of all documents) of cases processed under different benefit categories (per cent in parentheses)

No. of business days taken to process a case	*Retirement benefit*	*Early retirement*	*Deferred retirement*	*Withdrawal settlement*	*Widow/widower benefit*	*Disability benefit*	*Child benefit*	*Total*
0–15	1 032 (57)	390 (56)	37 (18)	4 399 (67)	41 (32)	61 (53)	0 (0)	5 960 (62)
15–30	436 (24)	153 (22)	19 (10)	904 (14)	25 (19)	25 (22)	4 (13)	1 566 (16)
30–60	203 (11)	76 (11)	16 (8)	507 (8)	22 (17)	12 (11)	4 (13)	840 (9)
60–90	60 (3)	27 (4)	13 (7)	227 (3)	14 (11)	9 (8)	3 (10)	353 (4)
90–180	42 (2)	26 (4)	33 (17)	222 (3)	12 (9)	3 (3)	4 (13)	342 (4)
180–365	20 (1)	12 (2)	24 (12)	151 (2)	9 (7)	2 (2)	6 (20)	224 (2)
More than 365	14 (1)	15 (2)	56 (28)	199 (3)	7 (5)	3 (3)	9 (30)	303 (3)
Total	**1 807**	**699**	**198**	**6 609**	**130**	**115**	**30**	**9 588**

Source: Data provided by the United Nations Joint Staff Pension Fund.

23. From table II.1, the Board noted that the Fund processed 62 per cent of the cases during 2017 within the prescribed time limit of 15 business days, which was higher than the 27 per cent achieved in 2016, but still short of the internal target of 75 per cent. The Board also noted that 224 actionable cases were processed with a delay of six months to one year and 303 actionable cases with a delay of more than a year.

24. The Fund stated that most of these cases were migrated legacy cases or deemed deferred retirement benefit cases or cases which required several follow-ups. The Board is of the opinion that it is important for the Fund to process all cases within a reasonable time frame, otherwise it would lead to financial hardship among the separated employees.

25. The Board further noted that the categories with the highest numbers of benefits processed were withdrawal settlement (6,609 cases) and retirement benefit (1,807 cases). In these categories, 67 per cent and 57 per cent, respectively, of the cases were processed within 15 business days. The Fund was not able to achieve similar levels of performance in other categories.

Cases outstanding for processing

26. The Board noted that the Fund had 5,537 outstanding cases as at 31 December 2017, where all documents had been received. These cases fall under different categories, as shown in table II.2.

Table II.2
Outstanding cases according to category

Category	*Number of cases*
Not immediately processable	
Re-employment	243
Deferred benefit	414
Deferment of choice: cases pending for less than 33 months[a]	3 143
Subtotal, not immediately processable	**3 800**
Processable	
Deferment of choice: cases pending for more than 33 months	173
Cases where additional information is required	399
Cases with issues	323
In progress	212
Awaiting review by the Benefits Officer before being released	630
Subtotal, processable	**1 737**
Total	**5 537**

Source: Data provided by the United Nations Joint Staff Pension Fund.

[a] These are the cases where the separating employee has opted for deferment of choice, which is permitted up to 36 months. According to the Fund's internal procedure, cases in this category become due for processing after 33 months of separation, so that the case can be processed by the time deferment ends.

27. The ageing analysis details of the 1,737 cases that were due for processing as at 31 December 2017 are in table II.3.

Table II.3
Ageing analysis (from date of separation) of outstanding processable cases

Category	*Cases where some more information is required*	*Cases with issues*	*In progress*	*Awaiting review*	*Total*
0–15 days	9	15	57	187	268
15–30 days	6	32	32	150	220
30–60 days	13	65	34	65	177
60–90 days	17	35	18	39	109
90–180 days	29	42	14	37	122
180–365 days	38	62	22	58	180
More than 365 days	287	72	35	94	661
Total	**399**	**323**	**212**	**630**	**1 737**

Source: Data provided by the United Nations Joint Staff Pension Fund.

28. The above analysis shows that 963 cases were pending for more than three months, 841 cases for more than six months and 661 cases are pending for more than a year. The oldest cases pertain to the years 2009 (1 case), 2010 (2 cases), 2011 (2 cases), 2012 (14 cases) and 2013 (66 cases). These cases were outstanding for want of some additional document or missing information either from the participant or the member organization or were awaiting review by the Benefits Officer.

29. **The Board recommends that the Fund process the cases pending for a long time on a priority basis and in a time-bound manner.**

30. The Fund accepted the recommendation.

Open workflows and non-actionable cases

31. The Board noted that there were 29,409 open entitlement workflows[8] and non-actionable cases as at 31 December 2017. These workflows can be classified into two broad categories:

(a) Workflows that remain open in the system because of issues in the Integrated Pension Administration System;

(b) Workflows that are pending owing to non-receipt of documents.

32. The breakdown of open workflows as at 31 December 2017 according to category is presented in table II.4.

Table II.4
Open workflows and non-actionable cases according to category

Category	*Number of open workflows as at 31 December 2017*
Workflows that remain open because of system issues in the Integrated Pension Administration System	
Participant account to be identified	134
Linked to estimate	61
Benefit calculation completed	10 189
Benefit is paid	2 362
Death in service case to be closed	236
Subtotal	**12 982**
Workflows pending owing to non-receipt of documents	
No documents received	627
Only separation personnel action received	7 049
Only separation notification received	1 541
Only payment instructions received	428
Separation notification not received	1 083
Payment instructions not received	5 699
Subtotal	**16 427**
Total	**29 409**

Source: Data provided by the United Nations Joint Staff Pension Fund.

Workflows that remained open in the system owing to system deficiencies in the Integrated Pension Administration System

33. The Fund implemented the Integrated Pension Administration System for automation of benefits processing. The system went live in August 2015. In a period of just over two years into production, the Fund implemented numerous

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[8] The Integrated Pension Administration System opens a workflow on receipt of any separation document.

enhancements, data fixes and change management procedures to correct various problems encountered with the system. The Board has highlighted various deficiencies in the Integrated Pension Administration System in its previous audit reports (see A/71/5/Add.16 and A/72/5/Add.16), especially related to lack of input validation controls, non-generation of management information system reports and the need for human interventions at every stage of benefits processing, and the Board recommended that the Fund address these issues.

34. As at 31 December 2017, 12,982 workflows remained opened owing to various system issues (see table II.4). The terms "linked to estimate", "benefit calculation completed", "benefit is paid" and so forth are used by the Fund to categorize the workflows that remain open owing to system issues, although they should have been closed in a normal course of operations. The Fund informed the Board that by 30 April 2018 it had corrected some of the system issues and only 3,557 workflows remained open owing to systemic issues.

35. The Board is of the opinion that the number of systemic issues in the processing of workflows indicates the urgent need to review the Integrated Pension Administration System and fix the issues preventing it from functioning reliably. The systemic issues in the Integrated Pension Administration System pose a serious challenge to the stability of the system. The Board further noted an incident that occurred in October 2017 when about 195,000 workflows were opened owing to erroneous operation by a staff member and then closed within the same week. The Fund stated that the incident was due to human error and it had taken preventive action. The Board is of the opinion that these system issues strongly indicate the need for independent system examination of the Integrated Pension Administration System to get an assurance concerning its reliable operation.

36. **The Board recommends that the Fund undertake a data cleansing exercise to identify and close all of the workflows that remain open owing to issues in the Integrated Pension Administration System.**

37. The Fund stated that all workflow issues have been identified and are scheduled to be fixed in the forthcoming product releases.

38. **The Board further recommends that the Fund have a system audit done of the Integrated Pension Administration System to identify the deficiencies and issues in the system so that they can be corrected.**

Workflows that remained open owing to lack of documents required to process the benefits

39. The strategic framework of the Pension Fund for 2016–2017 does not provide for categorization of cases into actionable and non-actionable cases. The Fund, nonetheless, classified 16,427 cases as "non-actionable" on 31 December 2017, as one or more of the three required documents had not been received.

40. The ageing analysis of cases pending due to non-receipt of documents from date of separation is presented in table II.5.

Table II.5

Ageing analysis (from date of separation) of cases deemed "non-actionable" owing to non-receipt of documents

Category	*No documents received*	*Only separation personnel action received*	*Only separation notification received*	*Only payment instructions received*	*Separation personnel action and payment instructions received*	*Separation personnel action and separation notification received*	*Total*
Less than 1 year	8	1 747	16	3	225	886	2 885
1–2 years	7	374	27	5	92	431	936
2–3 years	9	238	20	3	63	316	649
3–4 years	4	107	28	1	37	342	519
4–5 years	4	63	56	6	22	292	443
More than 5 years	96	291	143	22	111	846	1509
Subtotal	**128**	**2 820**	**290**	**40**	**550**	**3 113**	**6 941**
Without date of separation	499	4 229	1 251	388	533	2 586	9 486
Total	**627**	**7 049**	**1 541**	**428**	**1 083**	**5 699**	**16 427**

Source: Data provided by the United Nations Joint Staff Pension Fund.

41. The Board noted that 9,486 cases shown as "non-actionable" did not have a separation date recorded in the Integrated Pension Administration System. Hence, it is not possible to ascertain how long they have been pending from the date of separation. This also indicated a deficiency in the system, in that it accepts blanks in the data fields.

42. The Board also noted that there were 627 cases in which a workflow had been opened, even though no documents had been received. Moreover, in 1,969 cases, no separation personnel action had been received. The Board observed that the Fund has a full functional human resources interface with the member organizations, through which it is supposed to automatically receive the separation personnel action. Hence, the Fund needs to review the reason for the non-receipt of the separation personnel action in all of those cases.

43. The Board also noted that in 8,560 cases, the separation notification was not received from the member organization. The Board noted that the Secretariat, the United Nations Children's Fund, the United Nations Development Programme, the Office of the United Nations High Commissioner for Refugees, the World Health Organization and the International Labour Organization together accounted for more than 90 per cent of such cases.

44. The delay in processing of benefits because of delay in the receipt of essential documents has been repeatedly highlighted in the previous reports of the Board (see A/71/5/Add.16 and A/72/5/Add.16). In order to find out the causes of the delays and to find a solution to the problem, the Fund undertook an "end-to-end review" of the separation process with the help of an external consultant and the participation of five member organizations. The review also echoed the issues highlighted by the Board in its previous reports.

45. The Fund stated that the strategic framework covers only actionable cases because benefit processing can only commence once all separation documents have been received. It also stated that the figure of 16,427 represented the number of workflows opened by the system upon receipt of any separation document through an automated interface. The Fund updated that figure, stating that, as at 30 April 2018, 13,080 workflows remained open owing to non-receipt of documents. The Fund also

acknowledged the existence of deficiencies in the Integrated Pension Administration System that allowed incomplete, duplicate or erroneous entries to be accepted and it stated that corresponding enhancements to the system were being implemented.

46. **The Board recommends that the Fund engage with member organizations and resolve the issues in transmission to the Fund of the documents required for the processing of pension benefits.**

47. **The Board further recommends that the Fund develop a system for receiving the required documents through a secure electronic interface.**

48. The Fund informed the Board that it was collaborating with the Secretariat to implement an enhancement project to create an interface to further automate the exchange of information and documentation concerning separating staff.

Grievance redressal mechanism

49. Delays in processing benefits, the complex nature of the Fund, the complexity of the procedure for approving the payment of benefits, the process of verification of the continued eligibility of beneficiaries through the annual certificate of entitlement exercise and the criticality of the Fund to the livelihoods of beneficiaries, combined with a very large and diverse clientele of the Fund including participants, retirees and beneficiaries, result in a large number of queries, follow-ups and sometimes complaints being submitted to the Fund.

50. To service these queries, follow-ups and complaints, the Fund requires a well-defined and active grievance redressal mechanism. In recent years, the Fund has taken the following initiatives:

(a) Establishment of call centres in New York and Geneva to address clients' telephone queries;

(b) Enhancement of its website with additional information and learning tools, exhaustive "frequently asked questions" and additional reference materials;

(c) Provision of a member self-service portal;

(d) Provision on the website of an interactive contact form which segregates and routes the incoming queries to the Fund office responsible;

(e) Provision of an urgent assistance page;

(f) Creation of an employer self-service portal.

51. The Fund, however, continued to receive a large volume of queries (including complaints) through various modes during the year 2017. The modes of query are detailed in table II.6.

Table II.6
Types of queries received in 2017

Mode of receipt	*New York office*	*Geneva office*	*Total*
Walk-in	3 999	1 925	5 924
Telephone call	12 786[a]	11 515	24 301
Email	44 744	22 521	67 265
Total	**61 529**	**35 961**	**97 490**

Source: Data provided by the United Nations Joint Staff Pension Fund.

[a] In addition, there were 14,614 calls that were received after office hours and working days and therefore could not be answered.

52. As regards the mechanism for handling these queries and complaints, the Fund informed the Board that all queries it received were acknowledged and processed. The Board noted that there was no documented client grievance redressal system including mechanisms to prioritize complaints and queries on the basis of their nature and set a corresponding time period to deal with them. The Board further noted that there is no centralized system to register the queries and complaints by giving them a distinct tracking number. Hence, it is not possible for the person making the query to track it subsequently. Similarly, there is no centralized system of updating and informing the clients about the status of the queries or grievances registered by them with the Fund.

53. The Board observed that majority of the emails were either forwarded or archived or designated as no action required. On further inquiry into the final action taken on forwarded emails, the Board noted that the final action taken or status of the grievances was not tracked centrally by the Fund.

54. The Fund responded that it had initiated a process to identify tools that would be beneficial for quality implementation of client grievance redressal.

55. **The Board reiterates its recommendation that the Fund document the client grievance redressal mechanism (see A/72/5/Add.16, para. 112) and further recommends that the Fund establish a centralized client management system which provides a distinct tracking number that can be used by the client to track the status of the query or complaint until the final resolution of the issue.**

Certificate of entitlement

56. The certificate of entitlement is a form used by the Fund to verify the continuing eligibility of retirees and beneficiaries to the benefits they are receiving. The Fund sends a barcoded certificate of entitlement form every year to each beneficiary to whom benefits have been paid for at least six months prior to the month of sending the certificates. The form is barcoded so that it can be tracked when returned by the beneficiary. If the ink-signed form is not returned within the allowed time frame, the benefit gets suspended. As soon as a certificate of entitlement is returned by a beneficiary, a workflow is triggered with a step called "review signature" for manual verification of the signature. Verification of signatures is required for all beneficiaries over 75 years old and beneficiaries having disability benefits or survivors' benefits. Of the beneficiaries under 75 years of age, 25 per cent are verified each year, with each beneficiary being selected for signature verification at least once every five years.

57. The certificate of entitlement exercise is undertaken by the Fund in two batches. A first mailing is done by 31 May, with a follow-up mailing in September to all beneficiaries whose signed forms have not received back from the first mailing. The cases where the certificate of entitlement forms are not received by the end of the year are identified and reviewed by the Fund in subsequent months. In respect of the cases for which no barcoded form is received but some other document carrying the beneficiary's original signature is received after 1 May, the Fund takes the case off the suspension list, as the beneficiary has satisfied the annual requirement of providing an original signature on or after 1 May of the certificate of entitlement year. In the remaining cases, the Fund follows up with the Association of Former International Civil Servants and the staff pension committee of the last employing organization of the beneficiary to request their assistance in locating the person or providing information they may have about the beneficiary. The Fund has created a dedicated email inbox to receive information on such cases.

58. The certificate of entitlement is an important tool for verifying the eligibility of the beneficiary every year. However, the procedure followed is cumbersome for both the Fund and the beneficiaries, considering that the latter are located all over the

world. Benefits get suspended as a result of non-receipt of the certificate of entitlement by the Fund, which may occur owing to a change of address of the beneficiary of which the Fund is not informed, or a malfunction of the postal service. Non-matching signatures can also be a reason for suspension of the benefits of the retirees/beneficiaries.

59. The Board analysed the benefits suspended as at 31 December 2017. There were 1,619 cases where the disbursement had been stopped owing to non-receipt of certificate of entitlement. Of the 1,619 cases, 937 had certificates pending from 2006 to 2016. The ageing analysis of these cases is depicted in table II.7.

Table II.7

Ageing analysis of benefits stopped owing to non-receipt of certificate of entitlement

Timeline	*Number of benefits*
Less than 1 year	682
1–2 years	242
2–3 years	52
3–4 years	170
4–5 years	126
More than 5 years	347
Total	**1 619**

Source: Data provided by the United Nations Joint Staff Pension Fund.

60. The Fund stated that these cases represented 0.19 per cent of the 500,000 certificates of entitlement dispatched during the last 10 years. It further stated that it had reviewed the cases suspended for two or more years since their last returned certificate of entitlement and started a process of termination of those cases. That action had been put on hold due to other priorities. The Fund would take action to terminate the identified cases.

61. **The Board recommends that the Fund review the process of obtaining the certificate of entitlement and the suspended cases that have been on hold for an extended period.**

62. **The Board further recommends the Fund develop an automatic signature verification system to facilitate the certificate of entitlement process.**

63. The Fund has taken note of the above recommendations and stated that it is undertaking implementation of an automatic signature verification project to automate the process of signature verification during the annual certificate of entitlement exercise.

4. Investment management

64. The Investment Management Division is headed by the Representative of the Secretary-General for the investment of the assets of the Fund. The Board reviewed the mechanism in place for the formulation and implementation of the investment strategy, policies and decision-making processes followed by the Fund in order to assess whether the Fund had appropriately addressed the associated risks, its performance against established benchmarks and the target rates of return required to meet expected pension obligations. The Board's findings on the functioning of the Investment Management Division are discussed in the paragraphs below.

Risk management in the Investment Management Division

65. In accordance with the investment policy statement of 2016, the strategic asset allocation is determined by the Representative of the Secretary-General considering the Fund's mission, long-term liabilities and approved risk appetite and tolerance, with input from asset and liability management studies and the guidance of Investment Committee. The strategic asset allocation is the major determinant of investment performance. Once the strategic asset allocation has been selected by the Representative of the Secretary-General, the Investment Management Division manages the portfolio in accordance with the strategic asset allocation and the risk tolerance limits. The Investment Management Division also determines and monitors risk budgets, the objective of which is to allocate risk among asset classes and portfolios, and conducts risk monitoring, the objective of which is to ensure that the realized risk is within the risk tolerance and risk appetite.

66. The Board observed that the Fund has developed a risk budget at the total Fund level. The risk budget for the equity is allocated on the basis of portfolio by region. However, the Board observed that there was no suballocation of the risk budget among countries, sectors and currencies for equities in which the Fund had made investments or was planning to invest. The Fund has developed a risk budget for the fixed-income group by currency weightages and by duration. In its previous report, the Board recommended that the Fund prepare a detailed risk budget for all categories of the assets (see A/72/5/Add.16, paras. 41 and 42). The Investment Management Division replied that it had implemented a strategic risk report at the total Fund level, including a revised risk budget reflecting all asset classes.

67. **The Board recommends that the Fund evolve guidelines for country, sector and currency-level suballocation of the risk budget for equities.**

Independent review

68. The Fund hired the services of a consultant in 2017 to conduct an independent review and peer comparison of the Fund's investment main practices, investment management and risk management. The consultant gave 25 recommendations regarding investment management, risk management, investment limits and compliance, performance measurement and investment reporting. The Pension Board endorsed the independent review of the Fund and requested the Assets and Liabilities Monitoring Committee to monitor the implementation of those recommendations and report back to the Pension Board at its sixty-fifth session, in 2018.

69. The Fund stated that the independent review report mentioned that the majority of the leading practices were already incorporated into Fund practices. On the basis of the smaller list of items that were not currently observed Fund practices, the independent review report provided a list of the most important gaps to be closed.

70. **The Board recommends that the Fund expedite the implementation of the recommendations of the independent review of the Fund's investment main practices, investment management and risk management.**

71. The Fund accepted the recommendation.

Management of foreign currency gains and losses

72. Open exposure to foreign currency volatility brings with it the risk of reduced returns or even capital erosion. The Fund gained $1,684.73 million on account of foreign currency fluctuation during 2017, while it suffered losses on the same account in the preceding years 2013 to 2016. The currency impact on the Fund's return over 3, 5 and 10 years was (-) 0.43 percent, (-) 1.68 percent and (-) 0.91 percent, respectively.

73. In its previous reports (see A/70/5/Add.16, A/71/5/Add.16 and A/72/5/Add.16), the Board has raised concerns over foreign currency losses affecting the Fund's performance. On the recommendation of the Board, the Fund conducted a formal currency study in 2017, as a result of which it was recommended, inter alia, that the currency exposure relative to liabilities be reduced to the extent possible, taking into account cost-effectiveness and operational feasibility. The study also recommended that details of the currency composition of the liabilities be included in the next asset and liability management study.

74. The Board observed that, as at 31 December 2017, 44.09 per cent of the total investments of the Fund were in currencies other than the United States dollar, which exposed it to foreign currency fluctuation risk and the associated risks. The Board is of the opinion that it is important to have specific guidelines for investment managers on the position to be taken and currency exposure to be maintained for each class of asset. The Board noted that the Fund did not prepare such guidelines for currency exposure under each asset class relative to the benchmark.

75. **In view of the foreign currency exposure, the Board recommends that the Fund take expeditious action on the recommendations of the currency study to reduce the effect of foreign exchange volatility on its return on investments.**

76. **The Board further recommends that the Fund expedite the asset and liability management study for alignment of its currency exposure with liabilities.**

77. **The Board also recommends that the Fund evolve suitable strategies and an action plan to manage the foreign currency risks on the basis of the results of the asset and liability management study.**

78. **The Board recommends that the Fund prepare guidelines for currency exposure under each asset class relative to the benchmark.**

79. The Fund stated that it had had exposure to foreign currency risk since at least 1980. The General Assembly promotes global investments in various resolutions. Global investments imply foreign currency risk. Despite currency accounting volatility, the Investment Management Division has met the long-term 3.5 per cent real rate of return target. The Board appreciates the fact that the Fund is dealing with the foreign currency volatility but is of the opinion that, owing to the inherent risks involved in foreign currency transactions, the asset and liability management study needs to be carried out to better manage these risks.

80. The Fund accepted the recommendations.

Planning and acquisition of the trade order management system[9]

81. The Fund adopted the Bloomberg Asset and Investment Manager[10] as its trade order management system in 2015. It was selected through a non-competitive process. Presently, the Bloomberg Asset and Investment Manager, which is one of the critical systems, is being used extensively to provide a front-to-back solution.

82. The Board noted that the contract for Bloomberg Asset and Investment Manager was a stop-gap arrangement for a three-year period (29 July 2015 to 28 July 2018)

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[9] A trade order management system is a software system that facilitates and manages the execution of trade orders. Such a system is essential for the investment management function, which involves frequent buying and selling of investments.

[10] Through the Bloomberg Asset and Investment Manager, the Investment Management Division has access to the Bloomberg professional service, which enables it to monitor and analyse real-time financial market movements and access news, price quotations for securities, foreign exchange quotations, credit profiles, messaging, etc., within a proprietary secure network.

and subject to a comprehensive assessment of the award of a contract for the recommended system through competitive bidding process. The Board noted that only in June 2017 was a consultant hired to conduct the comprehensive assessment, and that no request for proposal had been initiated for awarding the contract for a new trade order management system. Meanwhile, it was proposed that the contract for the Bloomberg system be extended for two years, with the possibility of a further two-year extension, such that the contract could be in force until 28 July 2022. The Fund informed the Board that the Investment Management Division would be working on the new order management system in 2020.

83. The Board noted that the Investment Management Division has estimated that it will take more than three years to get a new system implemented after floating the request for proposal. Hence, if the Division were to start working on the request for proposal in 2020, the new system would not be implemented before the end of the present contract for the Bloomberg system. Therefore, it is evident that the Fund has not properly planned for the acquisition of a critical system.

84. The Fund replied that the consultant engaged to assess the target operating model had deemed the current trade order management system fit-for-purpose. Since that system had been procured as a stop-gap measure, the Fund would launch a request for information by the end of 2018 to verify (a) that the current trade order management system was still the best solution and (b) that its price was competitive. The Fund would launch a request for proposal if the request for information showed that better and more economical solutions were available, taking account of implementation, maintenance and integration costs. That manner of proceeding was a management decision based on prudent advice and not a case of improper planning.

85. The Board is of the opinion that the failure to formulate the request for proposal even after the completion of the original contract period for the stop-gap arrangement, and extending the contract by a further period of two plus two years, reflect the need for better procurement planning in the Fund.

86. **The Board recommends that the Fund properly plan and execute the acquisition of critical software.**

87. The Fund accepted the recommendation.

Internal controls in the Investment Management Division

88. The Fund has considered the *Internal Control-Integrated Framework* of the Committee of Sponsoring Organizations of the Treadway Commission as a guideline for assessing its internal controls over financial reporting. That framework places emphasis on fraud risks and compliance. It requires the organization to consider the potential for fraud in assessing risks to the achievement of objectives.

89. According to the information circular issued in September 2016 concerning the Anti-Fraud and Anti-Corruption framework of the United Nations Secretariat (ST/IC/2016/25), systematic fraud risk assessments should be undertaken in accordance with the Secretariat's enterprise risk management and internal control policy and methodology. In compliance with the circular, a fraud risk assessment is being conducted by the Fund secretariat. However, the Investment Management Division did not carry out any fraud risk assessment.

90. Further, the Board noted that the Investment Management Division had detected an external cyberfraud attempt in April 2018 which was being investigated.

91. The fraud risk assessment should include three key elements: identification of inherent fraud risks, assessment of likelihood and significance of inherent fraud risks and response to likely and significant inherent and residual fraud risks. As a part of

the fraud risk assessment, the organization needs to review the control environment with regard to information technology, which has a significant effect on fraud risk for most functions. The Investment Management Division handles a substantial portion of the assets of the United Nations. Hence, it is important for the Division to regularly carry out fraud risk assessments to know the vulnerable areas and develop a suitable mitigation strategy.

92. **The Board recommends that the Fund conduct a fraud risk assessment in respect of the Investment Management Division to identify the vulnerable areas and develop a suitable mitigation strategy.**

93. The Fund agreed with the recommendation and stated that it had hired a specialized information and communications technology security consultant to analyse and recommend solutions for any potential security weaknesses and would strengthen its training on fraud awareness.

Weekly report generation

94. The weekly report titled "Equity asset allocation" is designed to provide the Fund's actual equity weights (country and regional) relative to the Morgan Stanley Capital International All Country World Index[11] weights. The creation of the report was largely automated up to 19 December 2016 with the exception of the Morgan Stanley weights, which had to be incorporated manually. From 19 December 2016, that portion of the report was also automated. However, the Board noted that the weekly equity asset allocation reports generated between 23 December 2016 and 4 May 2017 continued to use the old benchmark weights of 16 December 2016 instead of the prevailing weights.

95. The Board further noted that, although the equity asset allocation report is a critical report for the Investment Management Division, there were no checks in place to identify deficiencies in the report. The above-mentioned deficiency was only identified by the Investment Management Division after more than four months. In order to address the issue, the Division built an internal reconciliation prototype tool to ensure the reconciliation of data between the service provider and Morgan Stanley Capital International. However, in May 2017, despite having the capability to generate the reports at regular intervals internally, the Investment Management Division had outsourced to a vendor the work of generating reports from the internal reconciliation prototype tool developed for internal control. This again put the Division at risk of any mistake on the part of the external contractor in generating reports.

96. The Investment Management Division replied that it was in the process of finalizing a contract with Morgan Stanley Capital International to take feeds directly from the service provider and create a permanent reconciliation of the data between the service provider and Morgan Stanley. Once the contract was finalized the Division would put a new internal reconciliation process in place as part of that solution to ensure that it had the appropriate internal controls over this outsourced function.

97. **The Board recommends that the Investment Management Division internally run the reconciliation prototype tool at regular intervals until the contract with Morgan Stanley Capital International is finalized, and thereafter put in place a new internal reconciliation process to have a check on the outsourced function.**

98. The Fund accepted the recommendation.

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[11] The Morgan Stanley Capital International All Country World Index is designed to provide a broad measure of equity-market performance throughout the world. It is composed of stocks from both developed and emerging markets.

C. Disclosures by management

1. Write-off of losses of cash, receivables and property

99. The Fund informed the Board that during the year 2017, there was a write-off of receivables of $559,162.92. There were no write-offs of losses of cash or property.

100. The Board noted that the overpayments were mainly on account of the death of the beneficiaries that came to the notice of the Fund subsequently.

2. Ex gratia payments

101. The Fund reported that there were no ex gratia payments by the Fund during the year 2017.

3. Cases of fraud and presumptive fraud

102. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

103. During the audit, the Board made enquiries regarding the oversight responsibility of management for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management had identified or that had been brought to its attention. In addition, the Board enquired whether the Fund had any knowledge of any actual, suspected or alleged fraud; it also made enquiries of the Office of Internal Oversight Services in that regard. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

104. The Fund reported that there were no cases of fraud or presumptive fraud that related to the staff of the Fund during the year ended 31 December 2017.

D. Acknowledgement

105. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Representative of the Secretary-General for the investment of the assets of the Fund, the Deputy Chief Executive Officer of the Fund and the members of their staff.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

24 July 2018

Annex

Status of implementation of recommendations up to the year ended 31 December 2016

No.	*Audit report year*	*Paragraph reference*	*Recommendations of the Board*	*Response of the United Nations Joint Staff Pension Fund*	*Board's assessment*	*Status after verification*			
						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
1	2013 (A/69/9, annex X)	19	The Board recommended that the Fund closely collaborate with member organizations to ensure that those organizations submit contribution data in a timely manner and keep in close communication with the actuarial service provider to ensure that the actuarial report could be produced and included in the formal financial statements in a timely manner.	The Fund and the Board of Auditors revised the timeline for the preparation of the financial statements. Each year the Fund requests that contribution schedules be submitted by the end of January, but most member organizations are unable to meet the deadline. Since the contribution schedules are needed to complete the year-end process, the financial statements have to be closed at a later date. In the financial statements submitted on 11 June 2018, the Fund included the results of the actuarial valuation as at 31 December 2017.	The recommendation is treated as implemented, as the actuarial valuation is included in the financial statements.	X			
2	2013 (A/69/9, annex X)	47	The secretariat of the Fund agreed with the Board's reiterated recommendation to: (a) continue to improve controls and efficiency of the participant reconciliation exception process to ensure the discrepancies are identified and reconciled with member organizations in a timely manner; and (b) prepare monthly and year-end contribution reconciliations to ensure the accuracy of the contributions and receivables recorded in pension system and financial statements.	(a) The Fund is advancing in the monthly financial interfaces project. The pilot for the monthly reconciliation of contributions submitted by member organizations will start in July 2018. Complementarily, the Fund started a finance process review to identify and address root causes of contribution discrepancies rather than individual discrepancies. (b) The year-end contribution reconciliation is completed every year prior to the closing of the financial statements. To further improve the process, the Fund is advancing in the financial interfaces project for the monthly reconciliation. A pilot monthly reconciliation is targeted for July 2018.	In view of the pilot study to be commenced in July 2018, the recommendation is treated as under implementation.		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
3	2013 (A/69/9, annex X)	51	The secretariat of the Fund agreed with the Board's recommendation to: (a) utilize and promote the online self-service as an additional tool in the certificate of entitlement process along with the smooth implementation of Integrated Pension Administration System; and (b) consider establishing a practical plan to develop an automatic signature verification system or thumbprint/live image verification system to facilitate the certificate of entitlement process.	The member self-service module was expanded to provide client access to proof documents and allow non-two-track clients to download, print and sign the certificate of entitlement. Additionally, retirees can update their own address in the member self-service module, excluding two-track clients and those using the United Nations pouch mail. This enhancement also benefits the certificate of entitlement process. Further, the member self-service feature allows retirees and beneficiaries to track all payments made to them by the Fund. Users of the feature can download all forms pre-completed with their names and unique identification numbers. Initial requests for validation, restoration, transfer of pension rights and emergency fund assistance can be submitted to the Fund through the member self-service module. (b) The Fund launched a project to develop a system to automate the process of signature verification during the annual certificate of entitlement exercise. A formal contract is expected to be awarded in 2018.	As Fund has initiated the process, the recommendation is treated as under implementation.		X		
4	2014 (A/70/325, annex VI, chap. II)	30	The Board recommended that the Fund expedite the introduction of the counterparty settlement system in a time-bound manner.	With the migration of the securities to a single global custodian effective on 1 February 2018, all eligible currencies are currently set up for settlement through the Continuous Linked Settlement Bank system.	This recommendation is treated as implemented.	X			

No	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
5	2014 (A/70/325, annex VI, chap. II)	35	The Board recommended that the Fund explore alternatives to mitigate the foreign exchange losses, including a detailed cost-benefit study for a suitable hedging strategy.	A consultant was hired and delivered a report on strategies to better control and reduce currency risks. The study was discussed with the Investments Committee in November 2017. The management of the Investment Management Division accepted the main conclusions of the study and formulated strategies to better control and reduce currency risks.	In view of the study, the recommendation is treated as implemented.	X			
6	2014 (A/70/325, annex VI, chap. II)	41	The Board recommended that the Fund take steps to achieve the policy benchmarks on each portfolio by improving its internal investment processes and practices and endeavour to achieve the overall minimal real return of 3.5 per cent.	The Investment Management Division engaged with Deloitte in 2017 to establish an independent review of the Fund's investment main practices, investment management and risk management. The study contains a detailed checklist of the Fund's practices against industry standards. The gaps identified by Deloitte are being addressed.	As the Fund has achieved an overall investment return greater than the benchmark of 3.5 per cent, the recommendation is treated as implemented.	X			
7	2014 (A/70/325, annex VI, chap. II)	48	The Board reiterated its recommendation that the Fund continue its efforts to reconcile and resolve all participant reconciliation exceptions with member organizations in a timely manner. The Board added that until such time as a system was implemented to enable monthly reconciliations, the Fund might consider including a suitable disclosure in the financial statements on the quantum of unresolved participant reconciliation exceptions.	The year-end reconciliation is conducted on a timely basis every year, prior to the closing of the financial statements, to ensure the accuracy of the contributions and receivables recorded in the financial statements. The participant reconciliation exceptions process is a quality improvement exercise that does not affect the accuracy of the financial statements. A disclosure in the financial statements was not deemed necessary since the exceptions identified during the review of human resources and contributions data submitted by member organizations do not affect the accuracy of the financial statements.	On the basis of the satisfactory response by the Fund, the recommendation is treated as implemented.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
8	2014 (A/70/325, annex VI, chap. II)	53	The Board recommended that the Fund ensure adherence to the stipulated benchmark for the processing of benefits through improvements in efficiencies and use of information technology enabled services, since service to its members is the primary function of the Fund.	The Fund shows significant progress in achieving the benefit processing benchmark of 75 per cent of benefits processed within 15 business days of receipt of all required separation documents. At the end of December 2017, 63.4 per cent of benefits with all required separation documents had been processed within 15 business days. The median time to process a benefit was 12 business days. During 2017, the Fund maintained a stable low end-of-month inventory of outstanding initial separation cases, with approximately 80 per cent of separations processed within the same calendar month. The Fund also conducted an end-to-end review study to identify opportunities to enhance the separation-to-benefit process. The Fund has also strengthened the exchange of information and cooperation with member organizations to expedite the submission of separation documents. There are focal points with member organizations and information and reports are regularly exchanged with member organizations.	The Fund has still to achieve the desired target for processing the cases. Although the performance has improved over the year, it is still below the desired target for processing the benefit within 15 business days. Hence, the recommendation is treated as under implementation.		X		
9	2014 (A/70/325, annex VI, chap. II)	65	The Board recommended that the Fund: (a) formulate a holistic policy for the strategic planning, governance and management of various information technology projects required or under implementation; and (b) take proactive measures to expedite the procurement of the replacement for the existing	The Investment Management Division updated its information and communications technology strategy document in 2017. The purpose of the strategy document is to outline the projects the Division will undertake and the road map it will follow to modernize its infrastructure and prepare for the anticipated growth over the next 5 to 10 years.	Though the Fund has updated its information and communications technology strategy document, the existing trade order management		X		

No	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			trade order management system and restrict additional expenditure on interim measures.	The Division has also engaged the services of Cutter Associates, an external asset management technology consulting firm specializing in helping asset managers to develop long-term technology road maps based on industry best practices.	system is still working as a stop-gap arrangement. Hence, this recommendation is treated as under implementation.				
10	2015 (A/71/5/Add.16, chap. II)	28	The Board recommended that the Fund, while filling the vacancies at the senior levels at the earliest opportunity, draw up a succession plan that foresees and addresses the changes that will occur when senior positions become vacant.	The Investment Management Division identified critical posts and filled all senior-level vacancies. The Division has reduced the number of vacant posts to 11, most of which are at various stages of the recruitment process. The Division has established an enhanced tracking process with a specific flowchart and critical timelines in order to proactively monitor the recruitment process and identify and address reasons for delays.	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			
11	2015 (A/71/5/Add.16, chap. II)	37	The Board recommended that the Fund devise a mechanism to assess the value addition to performance owing to active management of the portfolio on a regular basis so as to assess its impact and implement course correction as deemed necessary.	The Investment Management Division engaged with Deloitte in 2017 to establish an independent review of the Fund's investment main practices, investment management and risk management. The study contains a detailed checklist of the Fund's practices against industry standards. The gaps identified by Deloitte are being addressed.	In view of the ongoing action by the Fund, this recommendation is treated as under implementation.		X		
12	2015 (A/71/5/Add.16, chap. II)	68	The Board recommended that the Fund carry out a review of the cash requirements of various currencies in order to keep a minimum investment in cash, given that it carries a low return	From December 2017, the Investment Management Division has fully implemented the Bloomberg order management system, which has a dynamic cash forecasting capability bringing significant improvement to the Division's portfolio management and	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			and is subject to foreign exchange fluctuation.	workflows. Furthermore, procedures for operational cash movements and the calculation of operational reserves became effective on 8 February 2018.					
13	2015 (A/71/5/Add.16, chap. II)	75	The Board recommended that the Fund: (a) address the foreign exchange exposure issue and employ suitable procedures and tools to mitigate foreign exchange losses; and (b) develop an internal mechanism to monitor, evaluate and manage losses or gains owing to foreign exchange in addition to regular monitoring of the fair value of the assets.	BNP Paribas was appointed to undertake the currency management study in 2017 and the final report was delivered in February 2018. The draft study was discussed with the Investments Committee in November 2017. The management of the Investment Management Division accepted the main conclusions of the study and formulated strategies to better control and reduce currency risks.	Action is yet to be taken on the recommendations of BNP Paribas. Hence, this recommendation is treated as under implementation.		X		
14	2015 (A/71/5/Add.16, chap. II)	83	The Board recommended that the Fund review its processes for fixed-income investments to ensure that it meets or exceeds its benchmark.	The fixed-income risk limit framework, which has been fully implemented, instituted new limits for deviations for currency and duration exposures relative to the benchmark within the fixed-income portfolio. These risk limits were implemented in March 2017 and assisted in the sizing of the aforementioned exposures within an acceptable risk/reward profile. The enhancements to the fixed-income section within the Investment Management Division led to improvements in the portfolio management capabilities and enabled the portfolio to achieve a return of 7.50 per cent in 2017, outperforming the benchmark return by 0.11 per cent.	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
15	2015 (A/71/5/Add.16, chap. II)	94	The Board recommended that the Fund enter into a service-level agreement defining the respective roles and responsibilities and service-level benchmarks and develop a mechanism to secure compliance with the agreement.	The Investment Management Division is working with Bloomberg to develop a service-level agreement defining the respective roles and responsibilities and service-level benchmarks and is developing a mechanism to secure compliance with the agreement. The Division expects to have an agreement in place by the fourth quarter of 2018.	In view of the ongoing action by the Fund, this recommendation is treated as under implementation.		X		
16	2015 (A/71/5/Add.16, chap. II)	99	The Board recommended that the Fund: (a) resolve the issues of data migration; and (b) frame key performance indicators in accordance with functional requirements for assessing the accuracy and timeliness of Integrated Pension Administration System outcomes.	(a) To enhance data quality, the Fund started a detailed review of issues during the data migration process from Pensys to the Integrated Pension Administration System. (b) The Fund has a process in place to address data issues which involves: (i) the generation of periodic exception reports; (ii) detailed reviews of data issues and underlying root causes; and (iii) data fixes both manual and automated. In addition, the Fund has key performance indicators in place for its core functions. Progress against key performance indicators is regularly monitored and reported by managers and annually reported to the Pension Board.	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			
17	2015 (A/71/5/Add.16, chap. II)	105	The Board recommended that the Fund: (a) acknowledge all queries and complaints received from all sources; (b) segregate queries and complaints so to address them appropriately; (c) devise a system of categorization and prioritization of complaints and their resolution; (d) inform the client periodically about the progress achieved in the resolution of the	All queries are acknowledged, processed and tracked. Walk-ins are immediately served, all telephone calls are answered during business hours and all emails receive an automatic and topic-relevant response. The New York call centre business hours have been extended to cover 7 a.m. to 7 p.m. Items (b) and (c) have been implemented. A contact form was introduced in the Fund's website which allows queries	Items (a), (b) and (c) have been implemented while (d), (e) and (f) are under implementation. The recommendation is considered as under implementation.		X		

No	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			complaint; (e) devise a system for monitoring and reporting the status of grievances to the appropriate levels in the Fund in order to ensure an effective client delivery mechanism; and (f) review the complaints data to help to identify the weaknesses of the system and to improve and streamline the existing processes.	to be categorized by topic and routed to the Fund office in charge of the case file (New York or Geneva). Dedicated email inboxes have been created for high-priority cases such as death-related queries, stopped regular monthly benefit payments and emergency fund queries; this enables the Fund to respond and take appropriate action quickly. An urgent attention page has been created on the website to provide clients with detailed information on how to reach the Fund and provide information concerning the death of a beneficiary a monthly benefit payment stopped Items (d), (e) and (f) are under implementation. With the approval of the budgetary resources, the Fund is preparing a project for the implementation of a customer relationship management system The Fund is gathering information about the system requirements for review and market research. The Fund will migrate all of its email services to the United Nations Headquarters Unite Mail system in the second quarter of 2018. This is expected to significantly improve security and email retention and will have a significant impact on implementing any customer relationship management solution that is completely dependent on the email component for client contact.					

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
18	2015 (A/71/5/Add.16, chap. II)	110	The Board recommended that the Fund prescribe a time frame for servicing the case load. An internal reporting framework for each type of benefit based on its priority should be established.	The Fund's strategic framework and budget documents specify the indicator of achievement and target for benefit processing. The Fund is studying the specific requirements for different benchmarks to be assigned to each benefit type. In the interim, the current benchmark of 75 per cent of benefits (initial separations) processed within 15 business days of receipt of all required separation documents (same formula and evaluation criteria) is applied to all benefit types. Death in service, survivor and disability benefits continue to be handled as priority cases.	The Fund has not prescribed specific reporting benchmarks for different types of cases according to their complexity. Hence, the recommendation is treated as under implementation.		X		
19	2015 (A/71/5/Add.16, chap. II)	115	An internal reporting framework simplify the process of obtaining the certificate of entitlement, including exploring the option of engaging the corresponding banks in the process.	The Fund explored the possibility of engaging corresponding banks in the certificate of entitlement process; however, this was not feasible given the use of multiple correspondent banks to distribute payments to 190 countries and a diverse set of local regulations that impede banks' involvement in the process. The process has been revised to ensure that all activities from the initial mailing to the follow-up actions are completed within one year. All non-two-track clients can access and print their individual certificate of entitlement from the member self-service section of the website, which greatly improves access to the annual certificate of entitlement form.	In view of the number of long-pending certificate of entitlement cases, there is a clear need to simplify the process of obtaining the certificate of entitlement, hence the recommendation is treated as under implementation.		X		

No.	*Audit report year*	*Paragraph reference*	*Recommendations of the Board*	*Response of the United Nations Joint Staff Pension Fund*	*Board's assessment*	*Status after verification*			
						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
20	2015 (A/71/5/Add.16, chap. II)	123	The Board recommended that the Fund: (a) impress upon the participating organizations the need to ensure that they identify and submit to the Fund sufficiently in advance cases that are due for separation in the normal course of business; and (b) check the status of documentation and jointly devise a mechanism to resolve the issues relating to incomplete or missing documentation from member organizations.	(a) The Fund has taken an active approach to coordinating with organizations, especially with those where there is advance notification of mission closings. Additional support is provided in those cases in terms of outreach activities and exchange of information to enable and expedite benefit processing. For example, the Fund recently conducted a joint mission with the Department of Field Support of the Secretariat to Liberia, where a peacekeeping mission will be closing. (b) The Fund has taken a proactive approach to enhancing the process and introducing new mechanisms for the submission and follow-up of separation documents: (i) Focal points with member organizations: to enhance communication and coordination for timely submission of documentation and follow-ups, member organizations have appointed focal points to handle all pension-related matters and submission of documentation to the Fund. (ii) Service-level agreements: the Fund entered into service-level agreements with member organizations to ensure ongoing reciprocal communications and the provision of information and communications technology support by the Fund to the member organizations. Secretaries of staff pension committees and focal points of member organizations already have access to the Integrated Pension Administration System and the member self-service and employer self-service features of the website. (iii) Business intelligence: the Fund	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				has granted the staff pension committee secretaries access to the business intelligence system to allow them to directly monitor the status of separation cases. (iv) Monthly reports by email: the Fund disseminates monthly statistics and reports on cases paid as well as outstanding cases to all member organizations and agencies. The reports detail the status of each case and the action needed to be taken to ensure that the outstanding cases can be processed. (v) Employer self-service: The Fund has made available complete listings of cases and reports in the employer self-service module. These reports complement the proof documents feature in member self-service, which allows members to track the status of separation documents. These mechanisms have enabled the Fund to maintain close interaction and communication with the member organizations and to follow up on missing documents. The Fund is currently implementing an enhancement project with the Secretariat to create an interface between iNeed and business intelligence (the Integrated Pension Administration System) to further automate the exchange of information and documentation about retiring staff. The Fund requests the Board of Auditors to close the recommendation considering the actions taken to exploit existing mechanisms and systems, and explore and implement initiatives to further automate the exchange of information and documents about retiring staff.					

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
21	2015 (A/71/5/Add.16, chap. II)	129	The Board recommended that participant reconciliation exceptions be resolved in a time-bound manner in order to avoid any dispute with the participating organizations and to ensure that up-to-date and accurate financial statements can be prepared for the Fund and the participating organizations.	The year-end reconciliation is conducted on a timely basis every year, prior to the closing of the financial statements, to ensure the accuracy of the contributions and receivables recorded in the financial statements. The participant reconciliation exceptions process is a quality improvement exercise that does not affect the accuracy of the financial statements.	In view of the response by the Fund, this recommendation is treated as implemented.	X			
22	2016 (A/72/5/Add.16, chap. II)	19	The Board recommended that the Fund strengthen its internal control procedure to ensure the accuracy of data before sending them for the actuarial valuation and carry out a fresh actuarial valuation as at 31 December 2017.	The Fund created a working group to review the process of preparation of the census data for the actuarial valuation as at 31 December 2017, with the participation of managers and representatives of the relevant units. The Fund has documented the process for the preparation of the census data and their reconciliation with the tables contained in the annex to the notes to the financial statements. The internal controls applied in the process and related roles and responsibilities are further documented in the risk and control matrix for the actuarial valuation data collection process. Management tested the execution of the controls applied in the preparation of the census data.	The Board examined the process and data sent to the actuary for conducting an actuarial valuation and did not find any issue in the internal process of the Fund. Hence, the recommendation is treated as implemented.	X			
23	2016 (A/72/5/Add.16, chap. II)	30	The Board recommended that the Fund make an appropriate disclosure of the accounting treatment of the tax withholding in the notes to the financial statements.	The Fund reviewed and updated its policy and the disclosure of the accounting treatment of the tax withholding within the notes to the financial statements. The updated tax-related disclosure clarifies the accounting policy for recoverability of receivables for the tax withholdings.	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
24	2016 (A/72/5/Add.16, chap. II)	32	The Board recommended that the Fund prepare and follow a consistent accounting policy for creating provisions for the receivables for the tax withholdings.	The Fund reviewed and updated its policy and the disclosure of the accounting treatment of the tax withholding within the notes to the financial statements. The updated tax-related disclosure clarifies the accounting policy for recoverability of receivable for the tax withholdings.	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			
25	2016 (A/72/5/Add.16, chap. II)	41	The Board recommended that the Fund prepare a detailed risk budget for all categories of the assets.	The Fund adopted more detailed risk limits in early 2017 for the internally managed fixed-income portfolio, including currency and duration limits. The Fund is also in the process of developing active limits for the global equity portfolio, and these active limits are expected to be implemented by or before the fourth quarter of 2018. The Fund is also taking action regarding the recommendation to prepare detailed risk budgets for public asset classes such as equities and fixed income. This may not be feasible for categories such as real assets, alternative investments and cash and cash equivalents. The Fund will review and consider the recommendation as it relates to these asset classes, pending the outcome of further research and analysis.	The recommendation is under implementation.		X		
26	2016 (A/72/5/Add.16, chap. II)	43	The Board recommended that the Fund fill the vacancies at the Professional and decision-making levels and prepare a comprehensive succession plan to effectively deal with the changes that will occur when senior positions become vacant.	The Investment Management Division identified critical posts and filled all senior-level vacancies. The Division has reduced the number of vacant posts to 11, most of which are at various stages in the recruitment process. The Division has established an enhanced tracking process with a specific flowchart and critical timelines in order to	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				proactively monitor the recruitment process and identify and address reasons for delays.					
27	2016 (A/72/5/Add.16, chap. II)	50	The Board recommended that the Fund review its internal investment and risk processes and procedures so as to outperform the benchmarks and achieve at least the targeted long-term real rate of return of 3.5 per cent.	The Investment Management Division engaged with Deloitte in 2017 to establish an independent review of the Fund's investment main practices, investment management and risk management. The study contains a detailed checklist of the Fund's practices against industry standards. The gaps identified by Deloitte are being addressed.	In view of the action initiated by the Fund, this recommendation is treated as implemented.	X			
28	2016 (A/72/5/Add.16, chap. II)	55	The Board recommended that the Fund continuously monitor and review its fixed-income strategy so as to ensure that it will meet and perform better than the benchmark.	The fixed-income risk limit framework, which has been fully implemented, instituted new limits for deviations for currency and duration exposures relative to the benchmark within the fixed-income portfolio. These risk limits were implemented in March 2017 and assisted in the sizing of the aforementioned exposures within an acceptable risk/reward profile. The enhancements to the fixed-income section within the Investment Management Division led to improvements in the portfolio management capabilities and enabled the portfolio to achieve a return of 7.50 per cent in 2017, outperforming the benchmark return by 0.11 per cent.	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			
29	2016 (A/72/5/Add.16, chap. II)	61	The Board recommended that the Fund expedite the currency study so as to further strengthen foreign currency management and control and reduce risks by employing suitable strategies.	BNP Paribas was appointed to undertake the currency management study in 2017 and the final report was delivered in February 2018. The draft study was discussed with the Investments Committee in November 2017. The management of the	In view of the action taken by the Fund, this recommendation is treated as implemented.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				Investment Management Division accepted the main conclusions of the study and formulated strategies to better control and reduce currency risks.					
30	2016 (A/72/5/Add.16, chap. II)	67	The Board recommended that the Fund incorporate provisions for the duration of the contract in the policy and formalize the evaluation method before awarding or renewing the contract of the fund managers.	The Fund updated its policy for external managers in April 2018, incorporating provisions regarding duration of the contract with external fund managers.	The policy does not prescribe any format or criteria for conducting an evaluation of the external fund managers as recommended, hence the recommendation is treated as under implementation.		X		
31	2016 (A/72/5/Add.16, chap. II)	75	The Board recommended that the Fund update the business continuity and disaster recovery plan in the Investment Management Division by including all the critical applications, determine recovery time objectives for all critical applications and carry out a business impact analysis study in view of the criticality of its operations.	The Fund entered into a contract in April 2018 for the provision of information and communications technology security, risk management and business continuity management for the Investment Management Division.	The Fund has entered into a contract for the provision of information and communications technology security, risk management and business continuity management and started the process of updating the recovery plan. Hence, the recommendation is treated as under implementation.		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
32	2016 (A/72/5/Add.16, chap. II)	79	The Board recommended that the Fund prepare a comprehensive security policy for the Investment Management Division that should be circulated widely among the management and the staff, and establish a mechanism to ensure compliance.	The Investment Management Division will prepare a comprehensive security policy, and the outcome of the information and communications technology security study is expected to assist the Division staff in addressing the Board's recommendation.	In view of reply by the Fund, the recommendation is treated as under implementation.		X		
33	2016 (A/72/5/Add.16, chap. II)	92	The Board recommended that the Fund: (a) explore the possibility of further automating various steps in benefits processing; (b) build input controls to ensure standardized information in the Integrated Pension Administration System; (c) enhance the functionalities of the member self-service and employer self-service modules; and (d) resolve data issues resulting from the migration to the Integrated Pension Administration System.	(a) The Fund has implemented a number of system enhancements to further automate benefit processing. (b) Various measures have been implemented to address issues related to input controls. (c) Several enhancements have been introduced to the member self-service and employer self-service modules, including the feature that allows beneficiaries to change address, the possibility of submission of contributory service purchase requests (validation, restoration, transfer of pension rights), a separation documents tracking table in the proof documents feature, all official Pension Fund forms pre-completed with the member's name and identification number, possibility of submission of emergency fund requests from beneficiaries, the online barcoded certificate of entitlement and certificate tracking table and the disbursements tab, providing details of all payments made to the beneficiary by the Fund and making reports available to member organizations with information on different types of cases. (d) The Fund has a process in place to	The Board has continued to note weaknesses in Integrated Pension Administration System. In view of them, the recommendation is treated as under implementation.		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification: Implemented	Status after verification: Under implementation	Status after verification: Not implemented	Status after verification: Overtaken by events
				identify and address data issues. The process, which includes exception reports, data reports and data fixes, has enabled the Fund to address various data issues. Complementarily, the Fund is conducting detailed process reviews and root cause analyses for benefit processing and finance processes to permanently address data-quality issues.					
34	2016 (A/72/5/Add.16, chap. II)	101	The Board recommended that the Fund: (a) set a definite timeline to process all outstanding cases in which all documents have been received; and (b) prescribe a time frame for processing each type of entitlement or benefit.	(a) The Fund's strategic framework and budget documents specify the indicator of achievement and target for benefit processing. The Fund continues to show progress in achieving the benefit processing benchmark of 75 per cent of benefits (initial separations) processed within 15 business days of receipt of all required separation documents. The Fund substantially improved its performance over the year.	The Fund has not prescribed specific targets for different types of cases according to their complexity. Hence, the recommendation is treated as under implementation.		X		
35	2016 (A/72/5/Add.16, chap. II)	105	The Board recommends that the member organizations create pension focal points to facilitate the expeditious processing of the retirement benefit cases.	The Fund has got pension focal points established.	In view of the action taken, the recommendation is treated as implemented.	X			
36	2016 (A/72/5/Add.16, chap. II)	106	The Board recommended that the member organizations identify all cases due for separation in the next six months before the date of separation, send updated demographic details to the Fund and reconcile all differences in contributions.	The Fund on its own, and in collaboration with the member organizations, is actively working to monitor and implement mechanisms for the timely submission of core separation documents from the member organizations. The Fund has in place pension focal points and regular interaction to monitor and prepare for peaks in separation movements in its organizations. The Fund has carried out targeted outreach and provided training to	The recommendation is treated as not implemented.			X	

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the United Nations Joint Staff Pension Fund	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				pension focal points to ensure the most efficient handling of pension-related matters in member organizations (for example, with the UNICEF Global Shared Services Centre in Budapest in autumn 2017). The Fund holds regular meetings with its counterparts in the Field Personnel Division of the Department of Field Support. The Fund has carried out an increased number of targeted outreach and training activities ahead of peacekeeping mission closures (e.g. ONUCI, MINUSTAH and UNMIL) and carried out joint outreach mission with the Field Personnel Division pension team. The Fund will share with focal points in member organizations reports with information on upcoming separations and work to address issues in the transmission of separation documents.					
37	2016 (A/72/5/Add.16, chap. II)	112	The Board recommended that the Fund document a client grievance redressal mechanism and include procedures for indexing, segregating, prioritizing and monitoring the queries.	With the approval of the budgetary resources, the Fund is preparing a project for the implementation of a customer relationship management system. The Fund is gathering information about the system requirements for review and market research. This would include better tracking of response times, integration of email, phone and walk-in registration with the Integrated Pension Administration System and improved monitoring of benchmarks and performance reporting. The customer relationship management tool will include automated escalation for handling queries.	The Fund is in the process of setting up the customer relationship management system, hence the recommendation is treated as under implementation.		X		

No.	*Audit report year*	*Paragraph reference*	*Recommendations of the Board*	*Response of the United Nations Joint Staff Pension Fund*	*Board's assessment*	*Status after verification*			
						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
38	2016 (A/72/5/Add.16, chap. II)	113	The Board recommended that the Fund devise and implement a structured feedback mechanism to receive feedback from clients.	The Fund implemented an electronic survey available in the Fund's website to assess clients' perceptions of the information provided in the website and other client services provided by the Fund. The information gathered will help to identify opportunities for improvement.	In view of the action taken by the Fund, the recommendation is treated as implemented.	X			
39	2016 (A/72/5/Add.16, chap. II)	118	The Board recommended that the Fund review: (a) the process of obtaining the certificate of entitlement; and (b) the suspended cases that are on hold for a longer period.	(a) All non-two-track clients can access and print their individual certificate of entitlement from the member self-service section of the website, greatly improving access to the annual certificate of entitlement form. The Fund is procuring an automated signature verification tool to further automate the process. (b) Benefits are suspended after several attempts to reach the beneficiary. Suspended cases often require interaction with clients, often in remote areas with poor mail services. The Fund gradually reviews suspended benefits that could be forfeited. The Regulations of the Fund require that rights to periodic benefits expire after five years for suspended cases.	The Board did not note that the Fund has reviewed the suspended cases that have been on hold for a long period. Hence, the recommendation is treated as not implemented.			X	
40	2016 (A/72/5/Add.16, chap. II)	124	The Board recommended that the Fund establish a system for receiving the schedules of contributions on a monthly basis along with a list of participants from the member organizations to eliminate the generation of participant reconciliation exceptions.	The first pilot for monthly reconciliation is targeted for July 2018. The Fund will also put into production business intelligence that will enable monitoring of the monthly reconciliation process. In the interim, contributions continue to be reconciled in the annual year-end process for the preparation of the Fund's financial statements.	The recommendation is under implementation.		X		

						Status after verification			
No.	*Audit report year*	*Paragraph reference*	*Recommendations of the Board*	*Response of the United Nations Joint Staff Pension Fund*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
41	2016 (A/72/5/Add.16, chap. II)	128	The Board recommended that the Fund carry out the reconciliation of the contribution by the member organizations at regular intervals.	The year-end reconciliation is conducted on a timely basis every year, prior to the closing of the financial statements, to ensure the accuracy of the contributions and receivables recorded in the financial statements. The first pilot for monthly reconciliation will start in July 2018. The Fund will also put into production business intelligence that will enable monitoring of the monthly reconciliation process. In the interim, contributions continue to be reconciled in the annual yearend process for the preparation of the Fund's financial statements.	The recommendation is under implementation.		X		
	Total				**41**	**20**	**19**	**2**	**0**
	Percentage					**48.78**	**46.33**	**4.89**	

Annex XI

Recommendations to the General Assembly for amendments to the Regulations of the United Nations Joint Staff Pension Fund[12]

Existing text	*Proposed text*	*Comments*
Article 4 ADMINISTRATION OF THE FUND	Article 4 ADMINISTRATION OF THE FUND	
(a) The Fund shall be administered by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization, and a secretariat to the Board and to each such committee.	(a) The Fund shall be administered by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization, and a secretariat to the Board and to each such committee.	No change
(b) The administration of the Fund shall be in accordance with these Regulations and with Administrative Rules, including Financial Rules for the operation of the Fund, consistent therewith which shall be made by the Board and reported to the General Assembly and the member organizations.	(b) The administration of the Fund shall be in accordance with these Regulations and with Administrative Rules, including Financial Rules for the operation of the Fund, consistent therewith which shall be made by the Board and reported to the General Assembly and the member organizations.	No change
(c) The Board may appoint a Standing Committee which shall have the power to act on behalf of the Board when it is not in session and may, subject to article 7, delegate its powers under these Regulations to the staff pension committees of the member organizations.	**(c) The Board shall adopt its own rules of procedure, which shall be reported to the General Assembly and the member organizations.**	New provision codifies in the Regulations the provision in rule A.5 of the rules of procedure
(d) The assets of the Fund shall be used solely for the purposes of, and in accordance with, these Regulations.	~~[(c)]~~**(d)** The Board may appoint a Standing Committee which shall have the power to act on behalf of the Board when it is not in session and may, subject to article 7, delegate its powers under these Regulations to the staff pension committees of the member organizations.	Current article 4 (c) is renumbered 4 (d)

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[12] Proposed additions appear in boldface text, and proposed deletions are indicated by strikethrough text.

Existing text	*Proposed text*	*Comments*
	~~[(d)]~~**(e)** The assets of the Fund shall be used solely for the purposes of, and in accordance with, these Regulations.	Current article 4 (d) is renumbered 4 (e)
Article 6 STAFF PENSION COMMITTEES	Article 6 STAFF PENSION COMMITTEES	
(a) The United Nations Staff Pension Committee shall consist of four members and four alternate members elected by the General Assembly, four members and two alternate members appointed by the Secretary-General, and four members and two alternate members, who shall be participants in the Fund and on the staff of the United Nations, elected by the participants in service in the United Nations by secret ballot.	(a) The United Nations Staff Pension Committee shall consist of four members and four alternate members elected by the General Assembly, four members and two alternate members appointed by the Secretary-General, and four members and two alternate members, who shall be participants in the Fund and on the staff of the United Nations, elected by the participants in service in the United Nations by secret ballot.	No change
(b) The elected members and alternate members of the United Nations Staff Pension Committee shall hold office for four years or until the election of their successors, and they shall be eligible for re-election; in the event that such an elected member or alternate member ceases to be a member of the Committee, another member or alternate member may be elected to hold office during the remainder of the term.	(b) The elected members and alternate members of the United Nations Staff Pension Committee shall hold office for four years or until the election of their successors, and they shall be eligible for re-election; in the event that such an elected member or alternate member ceases to be a member of the Committee, another member or alternate member may be elected to hold office during the remainder of the term.	No change
(c) The staff pension committees of the other member organizations shall consist of members and alternate members chosen by the body of the organization corresponding to the General Assembly, its chief administrative officer, and its participants in service, in such a manner that the number representing each shall be equal and, in the case of the participants, that the members and alternate members shall themselves be participants in the service of the organization. Each member organization shall make rules for the election or appointment of the	(c) The staff pension committees of the other member organizations shall consist of members and alternate members chosen by the body of the organization corresponding to the General Assembly, its chief administrative officer, and its participants in service, in such a manner that the number representing each shall be equal and, in the case of the participants, that the members and alternate members shall themselves be participants in the service of the organization. Each member organization shall make rules for the election or appointment of the	No change

Existing text	*Proposed text*	*Comments*
members and alternate members of its staff pension committee.	members and alternate members of its staff pension committee.	
	(d) Staff members of the secretariat of the Fund and of the Office of Investment Management of the Fund and staff members of the secretariat of each staff pension committee shall not be eligible to be elected or appointed to represent any constituent group in the staff pension committee of any member organization of the Fund and consequently to serve on the Pension Board.	Amendment to reflect the provision in rule C.1 of the rules of procedure, adopted by the Pension Board and reported to the General Assembly in 2017
Article 30 DEFERRED RETIREMENT BENEFIT	Article 30 DEFERRED RETIREMENT BENEFIT	
(a) A deferred retirement benefit shall be payable to a participant whose age on separation is less than the normal retirement age and whose contributory service was five years or longer.	(a) A deferred retirement benefit shall be payable to a participant whose age on separation is less than the normal retirement age and whose contributory service was five years or longer.	No change
(b) The benefit shall be payable at the standard annual rate for a retirement benefit and shall commence at the normal retirement age, or, if the participant so elects, at any time once the participant becomes eligible to receive an early retirement benefit from the Fund, provided that in such event it shall be reduced in the same manner and under the same conditions as specified in article 29.	(b) The benefit shall be payable at the standard annual rate for a retirement benefit and shall commence at the normal retirement age, or, if the participant so elects, at any time once the participant becomes eligible to receive an early retirement benefit from the Fund, provided that in such event it shall be reduced in the same manner and under the same conditions as specified in article 29.	No change
(c) The benefit may only be commuted by the participant into a lump sum if the rate of the benefit at the normal retirement age is less than 1,000 dollars. Such commutation shall be equivalent to the full actuarial value of the benefit.	(c) The benefit may only be commuted by the participant into a lump sum if the rate of the benefit at the normal retirement age is less than 1,000 dollars. Such commutation shall be equivalent to the full actuarial value of the benefit.	No change

Existing text	*Proposed text*	*Comments*
	(d) The child's benefit under article 36 shall not be payable to a participant in receipt of a deferred retirement benefit.	New provision to clarify that the child's benefit is not payable to a participant in receipt of a deferred retirement benefit
Article 32 DEFERMENT OF PAYMENT OR CHOICE OF BENEFIT	Article 32 DEFERMENT OF PAYMENT OR CHOICE OF BENEFIT	
(a) The payment to a participant of a withdrawal settlement, or the exercise by a participant of a choice among available benefits, or between a form of benefit involving payment in a lump sum and another form, may be deferred at the participant's request for a period of 36 months.	(a) The payment to a participant of a withdrawal settlement, or the exercise by a participant of a choice among available benefits, or between a form of benefit involving payment in a lump sum and another form, may be deferred at the participant's request for a period of 36 months.	No change
(b) A participant who deferred a choice under (a) above shall, if the choice is not made within the period by submitting applicable payment instructions, be deemed to have chosen a deferred retirement benefit if his or her age on separation was less than the normal retirement age.	(b) A participant who deferred a choice under (a) above shall, if the choice is not made within the period by submitting applicable payment instructions, be deemed to have chosen a deferred retirement benefit if his or her age on separation was less than the normal retirement age.	No change
	(c) A participant who makes no deferment of choice of benefit nor submits payment instructions for a period of 36 months after separation shall be deemed to have chosen a deferred retirement benefit if his or her age on separation was less than the normal retirement age.	New provision to clarify the type of benefit payable when a participant does not make a choice of benefit after the expiration of the 36-month period for deferment of choice of benefit
Article 46 FORFEITURE OF BENEFITS	Article 46 FORFEITURE OF BENEFITS **AND LIMITATION ON CLAIMS**	Title is amended to reflect the new provision adopting a time limit on claims
(a) The right to a withdrawal settlement or residual settlement shall be forfeited if for two years after payment has been due the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.	(a) The right to a withdrawal settlement or residual settlement shall be forfeited if for two years after payment has been due the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.	No change

Existing text	*Proposed text*	*Comments*
(b) The right to a retirement, early retirement, deferred retirement or disability benefit, widow's or widower's benefit, divorced surviving spouse's benefit, child's benefit or secondary dependant's benefit shall be forfeited if, for five years after the first payment has been due, the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.	(b) The right to a retirement, early retirement, deferred retirement or disability benefit, widow's or widower's benefit, divorced surviving spouse's benefit, child's benefit or secondary dependant's benefit shall be forfeited if, for five years after the first payment has been due, the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.	No change
(c) The right to continued periodic payments of a retirement, early retirement, deferred retirement or disability benefit, widow's or widower's benefit, divorced surviving spouse's benefit, child's benefit or secondary dependant's benefit shall be forfeited if, for two years after a periodic payment has been due, the beneficiary has failed to submit payment instructions, or has failed or refused to accept payment, or has failed to submit the duly signed Certificate of Entitlement.	(c) The right to continued periodic payments of a retirement, early retirement, deferred retirement or disability benefit, widow's or widower's benefit, divorced surviving spouse's benefit, child's benefit or secondary dependant's benefit shall be forfeited if, for two years after a periodic payment has been due, the beneficiary has failed to submit payment instructions, or has failed or refused to accept payment, or has failed to submit the duly signed Certificate of Entitlement.	No change
(d) The right to a benefit shall nevertheless not be forfeited under (a), (b) or (c) above if its exercise has been prevented by circumstances beyond the control of the beneficiary.	**(d) The Fund shall not accept any claim alleging non-receipt of a lump sum, including a withdrawal settlement, or monthly periodic benefit or request for correction of an amount due in respect of any lump sum or monthly periodic benefit payable under these Regulations, more than 10 years after the amount was due or the error was made.**	New provision to adopt in the Regulations a time limit of 10 years for claims for the non-receipt of benefits that have been paid by the Fund but which the beneficiary alleges were not received, or in respect of the correction of amounts paid by the Fund
(e) The Board may, if in its opinion there are circumstances which so warrant, restore the right to any benefit which has been forfeited.	(e) The Board may, if in its opinion there are circumstances **beyond the beneficiary's control** which so warrant, restore the right to any benefit which has been forfeited **or, after the 10-year time limit under (d) above, to any payment that has not been received**.	The current article 46 (d) is renumbered 46 (e), with amendments to reflect the basis on which the right to a payment that has been forfeited or to which the limitation on claims applies may be restored

Existing text	*Proposed text*	*Comments*
(d) The time limits prescribed in article 7 of the Statute of the Tribunal are reckoned from the date of the communication of the contested decision of the Board.	(d) The time limits prescribed in article 7 of the Statute of the Tribunal are reckoned from the date of the communication of the contested decision of the **Standing Committee acting on behalf of the Pension** Board.	Amendment reflects terminology that is consistent with article 48 (a) of the Regulations

Existing text	*Proposed text*	*Comments*
Article 48 JURISDICTION OF THE UNITED NATIONS APPEALS TRIBUNAL	Article 48 JURISDICTION OF THE UNITED NATIONS APPEALS TRIBUNAL	
(a) Applications alleging non-observance of these Regulations arising out of decisions of the Board may be submitted directly to the United Nations Appeals Tribunal by:	(a) Applications alleging the non-observance of these Regulations **in regard to rights affecting participation, contributory service and benefit entitlements under the Regulations** arising out of decisions of the **Standing Committee acting on behalf of the Pension** Board **under section K of the Administrative Rules** may be submitted directly to the United Nations Appeals Tribunal by:	Amendment to clarify the scope of the jurisdiction of the United Nations Appeals Tribunal in the context of article 21 of the Regulations referenced in article 48 (a) of the Regulations. A similar change is proposed by the Secretary-General to article 2.9 of the United Nations Appeals Tribunal statute, which addresses the jurisdiction of the Tribunal in cases alleging the non-observance of the Regulations of the Pension Fund
(i) Any staff member of a member organization which has accepted the jurisdiction of the Tribunal in Joint Staff Pension Fund cases who is eligible under article 21 of these Regulations as a participant in the Fund, even after his or her employment has ceased, and any person who has succeeded to such staff member's rights upon his or her death;	(i) Any staff member of a member organization which has accepted the jurisdiction of the Tribunal in Joint Staff Pension Fund cases who is eligible under article 21 of these Regulations as a participant in the Fund, even after his or her employment has ceased, and any person who has succeeded to such staff member's rights upon his or her death;	
(ii) Any other person who can show that he or she is entitled to rights under these Regulations by virtue of the participation in the Fund of a staff member of such member organization.	(ii) Any other person who can show that he or she is entitled to rights under these Regulations by virtue of the participation in the Fund of a staff member of such member organization.	
(b) In the event of a dispute as to whether the Tribunal has competence, the matter shall be settled by a decision of the Tribunal.	(b) In the event of a dispute as to whether the Tribunal has competence, the matter shall be settled by a decision of the Tribunal. **Remands, if any, shall be to the Standing Committee acting on behalf of the Pension Board.**	Amendment reflects the language in article 2.9 of the statute of the United Nations Appeals Tribunal and clarifies the treatment of cases remanded by the Tribunal
(c) The decision of the Tribunal shall be final and without appeal.	(c) The decision of the Tribunal shall be final and without appeal.	No change

Annex XII

Amendments to the rules of procedure of the United Nations Joint Staff Pension Fund[1]

Existing text	*Proposed text*	*Comments*
Rule A.5	Rule A.5	
Subject to the provisions of the Regulations and of these Rules, the Board shall adopt its own procedures. A majority of the members of the Board, including alternate members attending in the absence of members, shall constitute a quorum, provided that not less than three members from each of the three following groups are present:	Subject to the provisions of the Regulations and of these Rules, the Board shall adopt its own procedures. A majority of the members of the Board, including alternate members attending in the absence of members, shall constitute a quorum, provided that not less than three members from each of the three following groups are present:	No change
(a) The General Assembly of the United Nations and the corresponding bodies of the other member organizations;	(a) The General Assembly of the United Nations and the corresponding bodies of the other member organizations;	No change
(b) The competent authorities of member organizations;	(b) The competent authorities of member organizations;	No change
(c) The participants.	(c) The participants.	No change
	All members, alternate members and representatives attending each regular or special Board session in accordance with A.9 (a)–(e) below shall sign a declaration on confidentiality and conflict of interest before the start of the session.	New provision reflecting the practice of the Pension Board adopted in 2015 that each individual attending the regular or special session should sign the declaration on confidentiality and conflict of interest before the start of the session

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[1] Proposed additions appear in boldface text.

Annex XIII

Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and officials of the African Development Bank

Whereas, pursuant to the policy of international intergovernmental organizations to facilitate the exchange of personnel, it is desirable to secure continuity of pension rights of staff members transferring between these organizations;

Whereas, the Regulations of the United Nations Joint Staff Pension Fund (UNJSPF) and the Staff Retirement Plan Regulations of the African Development Bank (AfDB) authorize the conclusion of such agreements with other international organizations for the transfer and continuity of such rights;

Whereas, at its ___ session held _________, the Board of Directors of the African Development Bank, upon the recommendation of the Steering Committee, authorized the President of the African Development Bank to enter into this Agreement between the AfDB and the UNJSPF;

Whereas, at its __ session, held ________, the United Nations Joint Staff Pension Board approved, and the United Nations General Assembly, by its resolution _____, concurred, the Agreement between the African Development Bank and the UNJSPF.

It has been agreed as follows:

Article 1
Definitions

1.1 For the purposes of the present Agreement:

(a) "UNJSPF" means the United Nations Joint Staff Pension Fund;

(b) "UNJSPF participant" means a participant in the United Nations Joint Staff Pension Fund;

(c) "AfDB" means the African Development Bank;

(d) "Staff Retirement Plan" or "SRP" means the Pension Plan of the African Development Bank (AfDB);

(e) "SRP participant" means a participant at the SRP; and

(f) "Parties" means collective reference to both parties of this Agreement, and "Party" refers to the UNJSPF or the AfDB and/or its Pension Scheme, as the case may be.

Article 2
Transfers from the UNJSPF to the SRP

2.1 A former UNJSPF participant who has not received a benefit under the UNJSPF Regulations and becomes an SRP participant within one year after separation from service from a UNJSPF member organization and the cessation of UNJSPF participation, may within a further period of one year after the commencement of service and participation in the SRP elect to be covered by the provisions of the present Agreement and to transfer the accrued entitlements from the UNJSPF to the SRP.

2.2 Upon a written and binding election by the former UNJSPF participant, the UNJSPF shall pay to the SRP, upon request by the AfDB, an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with the relevant articles of the UNJSPF Regulations, of the retirement benefit which the UNJSPF participant had accrued in the United Nations Joint Staff Pension Fund based on the contributory service and final average remuneration up to the date participation in the UNJSPF ceased; or

(b) The withdrawal settlement to which the former UNJSPF participant would have been entitled under the UNJSPF Regulations, upon separation from the service of a UNJSPF member organization.

2.3 Based on the amount transmitted by the UNJSPF under article 2.2 of this Agreement, the former UNJSPF participant shall be credited with eligible contributory service in the SRP in accordance with the applicable SRP Regulations, as of the date the relevant amount is received by the AfDB for the SRP.

2.4 Notwithstanding article 2.3 above, the maximum eligible contributory service recognized in the SRP by application of this Agreement cannot exceed the length of the actual past service that the concerned former UNJSPF participant had performed at a UNJSPF member organization.

2.5 The Amount payable by the UNJSPF to the AfDB under article 2.2 shall in no event exceed the actuarial value required for the maximum eligible contributory service recognized in the SRP as calculated by the AfDB under article 2.4 of this Agreement.

2.6 Upon such election, the former UNJSPF participant shall cease to be entitled to any benefit under the UNJSPF Regulations.

Article 3
Transfers from the SRP to the UNJSPF

3.1 A former SRP participant who has not received a benefit under the SRP and who becomes a UNJSPF participant within one year after separation from the service of AfDB, may within a further period of one year after the commencement of service with a UNJSPF member organization elect to be covered by the provisions of the present Agreement and to transfer the accrued entitlements from the SRP to the UNJSPF.

3.2 Subject to article 3.4 of this Agreement, upon a written and binding election by the former SRP Participant, the AfDB shall pay to the UNJSPF, upon request from the UNJSPF, an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with the relevant articles of the SRP, of the retirement benefit which the SRP participant had accrued in the SRP based on the contributory service and final average remuneration up to the date participation in the SRP ceased; or

(b) The withdrawal benefit, to which the former SRP participant would have been entitled under the SRP, upon separation from the service of the AfDB.

3.3 On the basis of the amount determined under article 3.2 above, the former SRP participant shall be credited for purposes of the UNJSPF with contributory service equal to such period as determined in accordance with the actuarial assumptions applied by UNJSPF as of the date of the election and in accordance with the applicable UNJSPF Regulations to be equal in value to the amount paid to the UNJSPF by the SRP.

3.4 The maximum pensionable service credit granted in the UNJSPF by application of this Agreement cannot exceed the length of the actual past service that the concerned former SRP participant had performed at the AfDB.

3.5 The Amount payable by the AfDB to the UNJSPF under article 3.2 shall in no event exceed the actuarial value required for the maximum available recognition of past service as calculated by the UNJSPF.

3.6 Following the election mentioned in article 3.2 above, the former SRP Participant may be required by the AfDB to complete any formalities as necessary to ensure that the former SRP participant shall cease to be entitled to any benefit under the SRP.

Article 4
Leave without pay

4.1 Transfer of pension rights cannot be completed until formal separation from service and cessation of participation in the original Pension Scheme. Persons on secondment or loan are not considered separated and accordingly are not covered by this Agreement. Leave without pay status has to be terminated before pension rights are transferred. If a person is on a leave without pay status for more than three consecutive years, during which no concurrent pension contributions are made, no pension rights can be transferred, as stipulated below. Transfer of pension rights is not permitted under this Agreement if the person contributes concurrently to both Pension Schemes during the LWOP period.

UNJSPF participant on LWOP

4.2 Subject to article 4.1, if a UNJSPF participant becomes a participant in the SRP during a period of leave without pay from a UNJSPF member organization and, upon the termination or expiration of such period, ceases to be a participant in the SRP and resumes contributory service in the UNJSPF without any break in participation, no benefit becomes payable but the provisions of article 3 above shall apply. However, the Parties acknowledge that the UNJSPF participant's status, rights or obligations as a Participant in either Party's Pension Scheme shall be determined by each Party in accordance with their respective Pension Scheme. Such period shall not count for the UNJSPF participant as contributory service in the UNJSPF under article 22 (b).

4.3 The provisions of article 2 above shall apply if, upon the termination of the LWOP period, the UNJSPF participant ceases to be a UNJSPF participant and continues to be a participant of the SRP and the former UNJSPF participant makes an election in writing to that effect within one year of the termination of the LWOP period. These provisions shall also apply to the former UNJSPF participant in the event of death or disability retirement during LWOP under the SRP, as long as no benefit election has been made under the UNJSPF Regulations.

SRP participant on LWOP

4.4 Subject to article 4.1, if an SRP participant becomes a UNJSPF participant during a period of leave without pay from the AfDB and, upon the termination or expiration of such period without any break in participation, ceases to be a UNJSPF participant and resumes contributory service in the SRP, no benefit becomes payable but the provisions of article 2 above shall apply. However, the

Parties acknowledge that the SRP participant's status, rights or obligations as a Participant in either Party's Pension Scheme shall be determined by each Party in accordance with their respective Pension Scheme. Such period shall not count for the SRP participant as contributory service in the SRP under article 4.1 of the SRP Rules.

4.5 The provisions of article 3 above shall apply if, upon the termination of the LWOP period, the SRP participant ceases to be a participant in the SRP and continues to be a UNJSPF participant and the former SRP participant makes an election in writing to that effect within one year of the termination of the LWOP period. These provisions shall also apply to the SRP participant in the event of a death or disability retirement during LWOP under the UNJSPF Regulations, as long as no benefit election has been made under the Rules of the SRP.

Article 5
Transitional period

5.1 Staff members who entered the service of the AfDB within one year preceding the effective date of this Agreement, and who have not received any payments from the UNJSPF, may elect to avail themselves of the provisions of this Agreement by so informing the UNJSPF, in writing, within one year of the effective date of the Agreement. Upon so electing, the relevant provisions (particularly articles 2, 3 and 4 above) of this Agreement apply.

5.2 Staff members who entered the service of a UNJSPF member organization and became UNJSPF participants within one year preceding the effective date of this Agreement, and who have not received any payments from the SRP, may elect to avail themselves of the provisions of this Agreement by so informing the AfDB, in writing, within one year of the effective date of the Agreement. Upon so electing, the relevant provisions (particularly articles 2, 3 and 4 above) of this Agreement apply.

Article 6
Implementation of the Agreement and Administration Costs

6.1 The implementation of this Agreement shall be subject to the UNJSPF Regulations and Administrative Rules and to the SRP Regulations and Administrative Rules, as well as any respective internal implementation guidance and procedures established by either Party.

6.2 In order to ensure consistent interpretation and implementation of the provisions of this Agreement, the Parties shall keep each other informed and consult on any changes in implementation practice or other applicable procedures.

6.3 Each Party covers the relevant administrative and other costs incurred in dealing with individual cases arising out of this Agreement, including the determination of transfer values.

6.4 Payments pursuant to this Agreement are remitted promptly. However, no Party shall impose or add interest on account of delays that may occur in transmitting amounts pursuant to this Agreement.

6.5 All payments are made and recorded by UNJSPF in US dollars and the UNJSPF is not responsible for fluctuations in exchange rates.

6.6 All payments are made and recorded by the AfDB in Units of Account (UA) and the AfDB shall not be responsible for fluctuations in exchange rates.

6.7 The Parties hereby acknowledge that each Party has exclusive control over their respective Pension Scheme and has sole authority to determine any amount or value applicable under their Pension Scheme, including the equivalent actuarial value and withdrawal settlement under the UNJSPF, the actuarial equivalent of the pension rights, and the withdrawal benefit under the SRP, as well as any amount that may be payable to the other Party under this Agreement. The Parties further acknowledge that nothing in this Agreement shall be construed as giving to a Party any enforceable claim against the other Party's Pension Scheme or as providing to any Party, through delegation or otherwise, any right, authority or oversight over the other Party's Pension Scheme.

Article 7
Consultations and settlement of disputes

7.1 The Parties shall consult on any matter arising out of the present Agreement. The Parties shall use their best efforts to amicably resolve any issue concerning the interpretation or implementation of the terms of the present Agreement through negotiation.

7.2 Any individual UNJSPF or SRP participants may bring administrative actions against their employing organization or pension scheme, in accordance with their respective dispute-settlement mechanisms.

Article 8
Termination

8.1 The present Agreement shall continue in effect until modified or terminated by the mutual consent in writing of the Parties hereto, or terminated unilaterally upon not less than one year's prior notice given in writing by either Party.

Article 9
Effective Date of the Agreement

9.1 The present Agreement shall enter into force on signature with effect from [*date*]. It has been duly signed in duplicate originals, in English, at the dates and places given below:

For the African Development Bank	For the United Nations Joint Staff Pension Fund
______________________	______________________
	Sergio B. Arvizu Chief Executive Officer
Date:	Date:
Place: Tunis	Place: New York

Annex XIV

Statements delivered to the United Nations Joint Staff Pension Board at its sixty-fifth session

A. Statement by the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund

1. Madam Chair, esteemed Members of the Pension Board, Secretaries of the staff pension committees of member organizations of the United Nations Joint Staff Pension Fund, observers, other attendees and staff of the Fund secretariat and the Investment Management Division, this is my first Board meeting. I am very glad to be here. It is an honour to be appointed by the Secretary-General as his representative to manage the assets of the Pension Fund.

2. I am aware that an introductory statement by the Representative of the Secretary-General to the Pension Board has not taken place in the past. I was advised by various senior colleagues, whose views I respect — some of whom are sitting among you — that I should make an introductory statement. The objective is to introduce myself, to signal a new beginning and a clean break from the recent past.

3. Before I came on board on 1 January 2018, I had spent almost 30 years working with the World Bank, based in Washington, D.C., but working in all parts of the world, including with many of the agencies represented in this room. I am very familiar with this building, since I have been coming to FAO regularly for over 15 years, and I am glad to see a number of familiar faces here of people with whom I have worked closely since my World Bank days.

4. During this very enjoyable previous career — in addition to making global investments in developed and emerging markets, across a range of public and private market asset classes — I had the privilege of advising some of the largest pension funds around the world on the nuts and bolts of building a global investment capability and the governance challenges that are widespread in public-sector pension organizations. I will take this opportunity to share some perspectives on what stood out to me when I first arrived — while I still retain the fresh outlook of someone who is relatively new. Of course, I intend to stay strictly within the bounds of my role as management, and even within that, to speak only for investments.

5. I am aware that concerns have been expressed in the past by some of our stakeholders about various aspects of the Fund. To the extent that the issues raised relate to investment aspects — and let me reiterate that I speak only for the investments side of the Fund — I want to assure everyone that we are reviewing and addressing them in an active, considered and thoughtful manner.

6. I strongly believe that we in the investments group and all our stakeholders have the same objectives — to ensure that the assets of the Fund are managed prudently and optimally. The ultimate objective is for the Fund to be able to fully discharge our obligations to current and future beneficiaries, who number over 205,000 active and retired staff of the United Nations and 22 other member organizations of the Fund from around the world.

7. Proactive and open, two-way communication with all stakeholders and oversight bodies can go a long way in helping us achieve our objectives. As I have previously shared on various occasions with many of you, I am committed to this approach.

8. Let me also say that our aspiration is to have the Fund's investment organization counted among the most well-regarded long-term investment institutions globally. I am confident that we can make this aspiration a reality. You may well ask why this is important to all our stakeholders. It is, of course, important to our investment staff, as professionals who take pride and satisfaction in their work. But it is even more important to our stakeholders because the long-term financial strength and sustainability of the Fund is increasingly dependent on the strength of our investment capabilities.

9. Let us think of the Fund as a pot of money with two pipes going into it: participant and employer contributions (one third and two thirds, respectively) made annually to the Fund and pension payments flow through the first pipe; investment returns generated annually on the assets of the Fund flow through the second pipe. The flow in the first pipe reversed direction six years ago, with pension outflows exceeding contribution inflows; in 2017, pension outflows were about $2.7 billion, while contribution inflows were $2.4 billion. This is a normal feature of all maturing pension funds, as the number of retirees increases relative to the number of active staff.

10. Let me stress this: the Fund is financially healthy and is in a good position to meet all its obligations to all current and future beneficiaries, as the most recent actuarial valuation report (as at 31 December 2017) has confirmed. However, it does highlight the increasing importance of investment returns to the future well-being of the Fund. Our aspiration to make the Fund's investment organization best-in-class globally, impacts directly and positively the long-term interests of our stakeholders — whom all of you in this room represent. My colleagues and I look forward to your support and encouragement as we embark on this journey of enhancing our current capabilities.

11. Working in harmony with our sister organization, the Fund secretariat, is a core objective. Both the Fund secretariat and the investment organization are here for the same purpose — to provide a social safety net to the hundreds of thousands of United Nations and other member organizations' staff who toil day in and day out, often in challenging locations and circumstances, to make this a better world. We owe it to them to find ways to collectively serve them better. I sent out this message to all investment staff within 10 days of coming on board, when I held my first all-staff meeting. I repeated this message at the first quarterly meeting of the senior managers of both sides of the Fund, held three weeks after I came on board. Over the past few months, Paul and I have together also revamped the quarterly senior managers' meeting to make it more collaborative between the two sides of the Fund.

12. The assets of the Fund, some $65 billion at this moment, are the single most important assurance to the 205,000 people who depend on the Fund's fully discharging its obligations to them. In this context, I have been particularly struck by the wisdom and foresight displayed by the General Assembly as long ago as 1948 in deciding, and reiterating periodically ever since, that the Secretary-General has the fiduciary responsibility for investment of the assets of the Fund.

13. In my previous career, I witnessed first-hand the destruction in asset values — and consequent destruction of financial health — in many public-sector pension organizations around the world, as a direct result of the pressures which inevitably arise in such organizations. I can confidently say that the Fund's current healthy financial situation — in sharp contrast to that of many other public pension funds — can be directly attributed to this layer of insulation, which protects the Fund's assets from many of the same pressures.

14. This layer of insulation is in the best long-term interest of the 205,000 people who depend on this pension fund. Of course, the Pension Board, representing all the

stakeholders from all 23 member organizations, has a very important oversight role to play. I am committed to full and active engagement with the Board, as will hopefully become clear over the next few days.

15. As part of my onboarding process, the Executive Office of the Secretary-General shared with me the terms of reference of the Representative of the Secretary-General, as approved by the General Assembly in 2014. Please rest assured that I will follow these terms of reference faithfully, even as I am committed to fostering harmonious functioning internally and externally, and to proactive and open communication with all our stakeholders.

16. A few words on plans for our new name. As Board members are aware, OIOS, in its detailed audit results, issued on 1 June 2018 and circulated for comments, recommended that the Secretary-General upgrade the Investment Management Division to an office to reflect that the responsibilities for the Fund's investments are vested in a full-time Representative of the Secretary-General at the rank of Assistant Secretary-General. The Secretary-General accepted this recommendation on 18 June. I was pleased to note that many other stakeholders supported this recommendation in their responses to OIOS; some went further and called for its immediate implementation. Plans for this name change were shared with the Assets and Liabilities Monitoring Committee during its meetings in New York on 25 and 26 June, and with the Audit Committee during its meetings in New York from 27 to 29 June. These plans were also vetted by the Secretary-General's office, with the Office of Human Resources Management, the Office of Programme Planning, Budget and Accounts and the Office of Legal Affairs, before their approval. Board members will have noted conference room paper No. 5 in their materials, in which these plans are shared with the Pension Board. The Investment Management Division will henceforth become the Office of Investment Management.

17. Last year we added $9.7 billion to the Fund's assets, marking the biggest increase in the history of the Fund. Of course, financial markets are known to be quite volatile from one year to the next, and do not usually deliver 18 per cent investment returns two years in a row. Since the beginning of 2018, despite increasing market volatility — primarily related to the strength of the United States economy and resulting increases in United States interest rates — the Fund's value has remained stable. The assets of the Fund were valued at $64 billion as at 30 June 2018; the latest number I have as of a couple of days ago is $65.2 billion, representing a 2 per cent return year to date. The Fund's investment returns exceeded the policy benchmark's investment returns by 43 basis points, or 0.43 per cent, during the first half of 2018. All the numbers for 2018 are based on preliminary unaudited data and are subject to change.

18. It is important to note that our goal is to make sure that we discharge all our obligations to current and future beneficiaries. For this purpose, we do not need to, nor can we realistically expect to, meet our long-term return objective every quarter, or even every year. Having said that, annualized returns on the assets have comfortably exceeded the Fund's long-term objective of 3.5 per cent real (net of inflation) in dollar terms — for 1-, 3-, 5- 10-, 15-, 20- and 50-year periods ended 30 June 2018.

19. Measuring returns over long time periods (15 years or more) is the most appropriate for pension funds, because pensions are paid out over a very long time. It is in the best interests of beneficiaries that pension fund investments maintain a long-term focus.

20. During the first half of 2018, we took important steps within the Office of Investment Management to improve communications and institutionalize incremental improvements in investment, risk management and operational processes. We have

successfully closed 20 audit recommendations of OIOS and 12 of the Board of Auditors so far this year, and have enhanced tracking of our human resources processes for recruitment and onboarding of new staff. Ten new staff have been onboarded so far this year, and six vacant posts are at various stages of recruitment. We also started an internship programme, and already have 12 interns working with us; their contributions have been widely welcomed by the teams with which they are working.

21. We have made a strong effort in reaching out to all our stakeholders and in maintaining proactive, open, two-way communications with them. As part of this effort, we have completely revamped our website. The first version of the upgraded website was specifically targeted to be available before the start of the Pension Board meetings. I am pleased to inform you that we have met this goal. I would like to acknowledge the hard work of a large interdisciplinary team drawn from different parts of the Office of Investment Management, which made this possible within a short span of a few months. Please do visit oim.unjspf.org when you have a moment to spare from your busy schedules.

22. We have started weekly meetings with my entire senior management team (which includes the Chief Financial Officer, who reports to both the Representative of the Secretary-General and the Chief Executive Officer), opened up our weekly investment meetings to all staff, and initiated quarterly all-staff meetings, where anything that may be on the minds of staff may be brought up. We have established an Internal Investment Committee and a Private Markets Committee. We have operationalized a Risk Committee and a Compliance Committee. In addition, we have an Information and Communications Technology Steering Committee, which oversees ongoing work on the target operating model, and a transaction costs committee.

23. An anonymous survey of all investment staff (69 per cent response rate) revealed that 71 per cent of staff felt that things were changing for the better since the beginning of 2018 and no staff felt that things were changing for the worse. We hope to build on this good beginning by regularly engaging in proactive, two-way communication with all staff as we continue the process of transformation in the Office of Investment Management.

24. Since taking office on 1 January 2018, I have emphasized the importance of incorporating sustainable investing practices in the Fund's global investment portfolio, and making every effort to incorporate environmental, social and governance metrics and the Sustainable Development Goals into the Fund's investment process wherever feasible. I have added resources to this effort. The Office of Investment Management is in the process of evaluating additional measures to strengthen our efforts in this area under the leadership of the Director, Herman Bril.

25. Our approach is grounded in the belief that portfolios which integrate material environmental, social and governance metrics in their investment decision-making process have the potential to provide returns that are superior to those of conventional portfolios, while exhibiting lower risk over the long term. Our efforts have been recognized in the Principles for Responsible Investment Sustainability Report 2018, which has given us an improved score over the previous year, as well as in our recognition as a leader in this space by several other independent institutions. You can find more details on the Fund's approach to sustainable investing, and our work in this area, on our website.

26. I conclude with a few closing thoughts:

- This Fund is a very important component of the employee value proposition for all staff of the United Nations and other member organizations — we should aim to place it on a robust, stable footing for the next 50 years
- While differences in views from time to time among stakeholders are but natural, our common interest in the success and endurance of this Fund far outweigh these differences
- It therefore becomes incumbent upon all of us to strive for harmony, never losing sight of the 205,000 current and future beneficiaries who expect us to protect their interests above all else.

B. Statement by the Federation of International Civil Servants' Associations

Founded more than 66 years ago, in 1952, FICSA represents over 42,000 international civil servants worldwide in 46 member and associate member associations, out of which 34,000 are staff in the United Nations common system and, therefore, participants in the Pension Fund.

I wish to express the Federation's appreciation for the opportunity to address the Pension Board. Pension benefits are a fundamental pillar of the conditions of employment. As stated in the past, FICSA has a keen interest in following the work of the Board, which we consider to be an effective forum for consultation and decision-making through consensus-seeking on a tripartite basis.

FICSA would like to take this opportunity to congratulate the elected Chair of this Board, express its appreciation to the outgoing Chair and welcome the new Representative of the Secretary-General responsible for the investments of the assets of the Pension Fund. We thank the Deputy Chief Executive Officer for having stepped up and effectively taken on the leadership of the Fund's secretariat as acting Chief Executive Officer during the extended absence of the Chief Executive Officer, and each and every member of the Fund's staff for their commitment and dedication, in particular their well-appreciated efforts in reducing the time required to process new requests. We are pleased to note the renewed commitment to transparency and cooperation coming from both sides of the Fund, and we wish them, and their valuable teams, success in the challenging endeavours ahead. We wish to also express our appreciation to the Board for the admission of the Comprehensive Nuclear-Test-Ban Treaty Organization, whose staff association is a member of FICSA.

Health of the Fund

The Federation is certainly pleased to know that the Fund is in good health, with nominal returns last year significantly above the benchmark, increasing the valuation of the Fund, and we thank everyone in the Investment Management Division who contributed to this achievement last year. We can only hope that such a trend will continue in 2018 and in the years ahead.

FICSA would like to take this opportunity to reiterate its concern and caution, as raised previously, in respect of an ever-increasing use of non-staff contracts in the United Nations common system, the holders of which are denied access to the Pension Fund. FICSA is deeply concerned about this increased practice and its long-term impact on the health and sustainability of the Fund, which may be felt only in years to come.

We note the Audit Committee's reference to paragraph 27 of document A/69/528, in which the Advisory Committee on Administrative and Budgetary

Questions noted that the General Assembly had stressed the need to avoid any action that would compromise the fiduciary responsibilities and the long-term sustainability of the Fund. We have heard from the Consulting Actuary that the declining use of staff on regular contracts will have an impact on long-term sustainability, and this should be addressed. Although this is outside the direct control of the Pension Board, we deem this worth raising since some members of the Board represent the executive heads and governing bodies of their respective organizations, where decisions are taken on the use of staff on non-regular contracts. We note that the diminishing use of continuing appointments and other longer-term contracts also has implications for the Pension Fund.

Client services

We are pleased to see improvements reported in client services, as our primary concern is to ensure the efficacy and efficiency of the Fund in all its aspects. We take note that the backlog has declined. However, we would like to register our concern with regard to the remaining backlog as reported by the auditors. We heard about actionable cases delayed for more than six months or one year. We hope all parties involved in the secretariat of the Pension Fund, pension committees, organizations and human resources will be able to formulate and adopt concrete action plans to improve this on behalf of all participants and beneficiaries. Some practical suggestions include a detailed ageing and backlog report on a more frequent basis to the Pension Board that includes root-cause analysis of the delays and evidence of measures undertaken to address the issue, for example reporting on the number and frequency of follow-ups, channels of the follow-up (letter, email, telephone, through past employing organization) and reporting on the effectiveness of such follow-up measures to ensure that the right parties are involved at the right time, between the secretariat of the Pension Fund, the staff pension committees and member organizations.

We appreciate plans by the Pension Fund to be more proactive and sensitive to the needs of its clients, and hope it will adopt best practices in service management, including service-level agreements and regular reporting.

Situation in Egypt

FICSA would like to take this opportunity to highlight the situation of both staff and retirees in Egypt. Based on CEB 2015 statistics, there are 875 staff members in Egypt, the majority of whom are represented by FICSA (62 per cent). The devaluation of the Egyptian pound started in November 2016, which has an impact on inflation, as well as the purchasing power of local staff and retirees. In October 2016, $1 was equivalent to 8.88 Egyptian pounds. Now, however, $1 is equal to approximately 17.75 Egyptian pounds, as averaged over the past 20 months. The situation has an impact on not only active staff who are Fund participants, but also retired staff, since the devaluation may impact their pension payments and purchasing power.

FICSA was informed that the organizations and the Pension Fund secretariat were actively monitoring and analysing the situation. We remain available to provide more information from our members who are impacted in order to allow the Fund to evaluate whether existing mechanisms are capable of adequately handling this situation or if there are gaps which can be addressed. On the ground, we have just been informed by our constituents that this situation has already forced more than 10 staff members to opt for early retirement due to concerns that the value of their pension benefits may deteriorate further, with a number of other staff still evaluating the situation.

In conclusion, we reiterate the Chair's opening remark that all of us present at this Board session are here for the benefit of the Pension Fund, and should work closely together with the long-term sustainability and health of the Fund in mind. Your work today will have an impact on future generations. Therefore, we thank Board members for your continued vigilance in ensuring good governance of this Pension Fund.

C. Statement by the Coordinating Committee of International Staff Unions and Associations

Thank you for this opportunity to convey to you some of the views and concerns of our constituents. It is my pleasure to speak to you on behalf of CCISUA and its staff in the field and at headquarters duty stations, representing 60,000 international civil servants and participants in the Pension Fund.

Let me start by placing on record our deepest appreciation and genuine gratitude to the staff of the Pension Fund. We appreciate their commitment to improving its efficiency. We also appreciate the renewed commitments for stronger cooperation within the Fund.

With this, allow us to draw your attention to three key issues of concern.

Payment of benefits

We wish to stress the importance of reaching the objective of 75 per cent of beneficiaries receiving their pension within 15 days. We acknowledge the progress made and that currently the Fund is able to pay 67 per cent of beneficiaries who request withdrawal of their pension benefits and 57 per cent of those who request retirement benefits within 15 days. However, more work needs to be done to ensure that no one falls into the cracks and that there is a personal and direct channel with them, to have a consistent and efficient link to the Pension Fund.

On a parallel note, and with the same objective of reducing the waiting period to receive pension benefits, we also highlight the importance for the Secretaries of the staff pension committees to do their part. Sometimes, when staff retire, their records are not processed with the necessary urgency, causing unnecessary delays.

Auditing

We remain concerned that the three internal audits carried out throughout the year were not distributed to the Board as required by the Fund's rules of procedure. Further, we are concerned about overspending on procurement for consulting services and cost overruns, noting that this money belongs to our constituents. We are also concerned that the Integrated Pension Administration System was implemented when it was not yet ready and that critical recommendations from the internal auditor were discarded.

Non-regular staff

Last but not least, we note with concern the growing number of non-regular staff in all organizations, sometimes working for years with non-staff contracts. Nowadays, it seems that staff members often enter the pension system at a later stage of their lives, which not only has an impact on their pension benefits, but also has consequences for the Fund. Therefore, we hope there will be a study on the possibility that staff members could pay back the years spent as non-regular staff on a voluntary basis. We hope that this project will see light in the near future.

Participants look forward to the outcome of this session of the Board with heightened expectations and greater hopes. On their behalf, CCISUA also trust that your actions will address and resolve their urgent concerns.

Annex XV

Membership of the Audit Committee

Member	
A. Henning (WHO)	Governing bodies
T. Repasch (United Nations)	Governing bodies
R. Bhalla (ICAO)	Executive heads
D. Thatchaichawalit (United Nations) (Chair)	Executive heads
E. Voli Bi (UNESCO)	Participants
N. Ndiaye (United Nations)	Participants
H. Featherstone	FAFICS
Expert member	
M. McMahon	
B. Sanz Redrado	

Annex XVI

Membership of the Assets and Liabilities Monitoring Committee

Member	
O. Briones (UNESCO)	Governing bodies
P. R. O. Owade (United Nations)	Governing bodies
J. Kobza (WHO)	Executive heads
T. Panuccio (United Nations)	Executive heads
F. Leger (ILO)	Participants
K. Bruchmann (WHO)	Participants
W. Sach	FAFICS
M. Seenappa	FAFICS

Annex XVII

Statements delivered to the United Nations Joint Staff Pension Board on the report of the Office of Internal Oversight Services on its audit of the governance structure of the Pension Board and related processes[1]

A. Joint statement by the Staff Pension Committee of the United Nations Industrial Development Organization

1. The UNIDO Staff Pension Committee held its 146th meeting in preparation for the upcoming session of the Pension Board and reviewed the OIOS audit report on the governance structure of the Board and related processes.

2. The Committee expressed, by consensus, serious doubts on the legitimacy of the report. In addition, it disagreed with its main findings. In particular:

- The Committee recalled that the Pension Fund was a multi-institutional entity, consisting of 23 participating organizations, including the United Nations. It is inappropriate that: (a) the audit was conducted by the oversight office of just one of the participating organizations; (b) prior to the audit, the 22 remaining organizations were not consulted about whether an audit should take place, nor were the terms of reference shared with the various staff pension committees; and (c) the 22 other organizations were not asked to participate in the fact-finding exercise.

- The Committee had serious doubts about the correctness of the underlying data. The number of United Nations participants appeared too high, as they seemed to include peacekeeping staff, many of whom might never be eligible for a pension benefit because of limited years of service.

- Even if the United Nations has more active participants in the Fund than any other member organization, the proposal to increase its number of seats on the Board to almost two thirds of the members contradicts the basic principles of democracy. The Committee agreed with the General Assembly, which found in 2004 that the Fund was a joint venture of organizations, not of participants or individuals. Specialized agencies contribute to the Fund just as the United Nations does, and in order to ensure that their interests are adequately represented, each member organization should have at least one seat.

- Further, in order to maintain the balance of power, the separation between the Investment Management Division and the Fund should be maintained.

3. Given that the audit's mandate, methodology and recommendations, which are obviously in favour of the United Nations, appear more than questionable, the Committee rejected the report as a whole. It should be removed from the Board's agenda, and its recommendations should be dismissed.

4. The Committee requested that the present statement be shared with the Chair, the First Vice-Chair and the Second Vice-Chair of the Board, the Fund secretariat and the staff pension committees of the other specialized agencies.

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[1] For the final report of OIOS, see A/73/341. "Detailed audit results" refers to an earlier version of the audit recommendations circulated for comments.

B. Common position of the Staff Pension Committee of the World Meteorological Organization

The WMO Staff Pension Committee addresses the members of the Board with reference to: (a) the OIOS audit reports; and (b) comments received from the representatives of United Nations participants on the above-mentioned audit report as follows:

Comments on the audit

(a) The WMO Staff Pension Committee took note of the above-mentioned audit report;

(b) The Committee suggested that the report be submitted to the Audit Committee of the Board for review and comments to the Board;

(c) The Committee suggested that the Board request the external auditors to conduct an audit similar to that conducted by OIOS, bearing in mind the audits conducted by OIOS in 2008 and 2018;

(d) The Committee suggested that the Board neither accept nor decline nor comment on the recommendations contained in the above-mentioned report prior to the conclusion of the proposed external audit;

(e) The Committee suggested that the Board recommend that OIOS postpone the submission of its report to the General Assembly until 2019 to enable the Board to review and appropriately comment on the recommendations.

Comments on the proposals of the representatives of the United Nations participants

The Committee took note of the comments of the representatives of the United Nations participants with great concern, particularly with regard to the proposed composition of the Board.

The Committee stressed that the current composition was not only in line with article 5 of the Regulations of the Pension Fund, but also with the overall principle of equal representation of all members of the Fund. With this in mind, the Committee strongly urged all members of the Board to carefully review the proposals made before taking any action. In this context, the Committee refers to paragraph (d) above.

C. Joint statement by the Staff Pension Committee of the International Labour Organization

1. The ILO Staff Pension Committee met on 17 July 2018 in preparation for the upcoming meeting of the Pension Board. The Committee reviewed the draft report of OIOS on a comprehensive audit of the governance structure and related processes of the Board and agreed unanimously to make the present statement concerning the audit report.

2. While noting that the internal audit was conducted pursuant to General Assembly resolution 72/262 A, in which the Assembly requested the Secretary-General to entrust OIOS "with the conduct of a comprehensive audit of the governance structure of the Pension Board, including a review of the checks and balances between the Board and the leadership of the Fund", the Committee expressed its regret that, despite the Fund's being a multi-institutional entity, other participating organizations other than the United Nations itself were neither consulted on the terms of reference of the audit nor involved during the audit exercise.

3. The Committee recalled that a similar audit of the governance mechanism of the Fund had been carried out by OIOS in 2006 and reported to the Board at its fifty-fifth session, in June 2008. In the executive summary of that report, OIOS had stated that the Fund had adhered to most good corporate governance practices and that the Board, together with the General Assembly, had exercised adequate oversight over the Fund's operations and activities. Compared with the 2008 audit report, the Committee found that the draft audit report:

- Did not include all aspects of the Fund's governance structure, and thus had a limited scope and partial representation
- Presented observations and findings that were geared towards an opposite assessment of the effectiveness of governance than that reported in 2008
- Did not give full regard to the potential budgetary and operational implications for the Fund and all of its participating organizations, participants and beneficiaries

4. With respect to the individual recommendations contained in the draft report, the Committee noted that, despite the somewhat worrying observations made, most of the resulting recommendations remained at a high level. As such, it had no objection to accepting the following:

- Recommendation 4 on avoiding conflicts of interest between representatives of FAFICS and the Fund's management
- Recommendation 7 on strengthening the selection procedure and the independence of the Audit Committee
- Recommendation 9 on performance evaluations of the Chief Executive Officer, the Deputy Chief Executive Officer and the secretariat staff
- Recommendation 10 on setting the appropriate tone at the top with regard to integrity and ethical values
- Recommendation 11 on the appropriate distribution of resources and strengthening of monitoring
- Recommendation 13 on succession planning and competitive selection of the Fund's senior positions

5. With regard to the remaining recommendations, the Committee provided the following comments:

- Recommendation 1: The Committee highlighted the fact that Board members represented the different constituents of the member organizations. They were either elected or nominated through the appropriate administrative or legislative channels of each organization, with due consideration for their suitability for the job. In the view of the Committee, it is not the competencies of the individuals, but rather the annual rotation system of the membership, which hinders the board members' opportunities for continued understanding and follow-up of the matters presented to the Board. While it is useful to establish clear terms of reference for the members, the Committee would not support a move to establish competency requirements, restrictions or limitations for their appointment.
- Recommendation 2: The Committee agreed that there should be fair and equitable representation on the Board. However, it strongly objected to the recommendation to do so based on the distribution of active participants in the Fund. In particular, it expressed the belief that the increase in the number of active participants of the United Nations presented in the audit report was

questionable and misleading. For example, the increase in the number of United Nations participants might be due in part to peacekeeping mission staff, who would not be expected to participate in the Fund on a long-term basis, having a relatively short duration of employment and withdrawing their lump sum at the end of their contract, which in turn would push up administrative costs. Furthermore, as the Board has previously confirmed, the Fund is a joint venture of organizations, and not only of participants or individuals. Distributing the seats based on the number of active participants only, and the implied result of more seats for the United Nations, would greatly disturb the level of equitable representation on the Board and weaken the Board's governance and accountability rather than strengthening it.

- Recommendation 3: First of all, the Committee is of the opinion that the proposed direct election of retiree representatives is not feasible given that retirees reside in all parts of the world and do not necessarily have access to the technological means to ensure a satisfactory participation rate. While it is certain that it would be an additional administrative burden for the Board or the Fund to facilitate such a direct election process, the result of it might or might not represent the best interest of the retirees. Directly elected representatives would have difficulty in keeping their constituents informed unless they were provided with the mailing and email addresses of all retirees (updated on an ongoing basis) or of the retiree associations, which would then transmit information as necessary (which seems an unnecessary duplication and would be a considerable burden on the representative). If the representatives had no easy means of informing their constituents (or receiving feedback in return), retirees would in effect have no representation at all. Secondly, the Committee noted that retiree representatives currently had the same rights as members, except the right to vote, and it was of the view that this was sufficient. The Committee's consideration of practices in similar pension funds confirmed this position.
- Recommendation 5: While the Committee agreed in general with the recommendation to increase the frequency of the meetings of the Standing Committee, it highlighted the potential budgetary and logistical issues related to that recommendation and suggested that, where possible, teleconferences be used instead of physical meetings. Furthermore, it highlighted the unstable membership of the Standing Committee owing to the rotation scheme.
- Recommendation 6: The Committee expressed the view that the Assets and Liabilities Monitoring Committee had played an important role in facilitating the interaction between the Investment Committee and the Committee of Actuaries. It had also facilitated communications between the Fund's Chief Executive Officer and the Representative of the Secretary-General for the investment of the assets of the Fund during the time that such interaction was considered to be of concern. The Committee agreed that the Assets and Liabilities Monitoring Committee should not be a permanent body, but suggested that it continue to exist until the Board was satisfied with the reinforced interaction between the two sides. The Committee recommended that this recommendation be deferred for future consideration by the Board.
- Recommendation 8: While recognizing that the segregation of duties was an important element of control and governance, the Committee highlighted the potential budgetary and operational implications of the proposed measures, including the establishment of a separate secretariat and reconstitution of the Executive Office of the Fund. Such structures would not only require substantial funding, but would also create the potential for duplication of work. At a time

when all organizations are looking for cost efficiency, any additional funding requirements should not become the responsibility of member organizations.

- Recommendation 12: The Committee noted that a document related to the appointment of the Deputy Chief Executive Officer was to be presented to the Board at its upcoming meeting. Without reading the document, the Committee was not able to comment on the "deviations in and apparent arbitrariness of the process" described in the draft audit report. It requested that such a recommendation be reconsidered after the Board's deliberations on the document.

6. The Committee noted that the views expressed above represented a consensus among its three groups. It requested that the present statement be shared with the Chair, the First Vice-Chair and the Second Vice-Chair of the Board, the secretariat of the Fund and the staff pension committees of all participating organizations.

D. Joint statement by the Staff Pension Committee of the International Telecommunication Union

1. The ITU Staff Pension Committee held an extraordinary meeting on 9 July 2018 to review the OIOS draft audit report on the governance structure and related processes of the United Nations Joint Staff Pension Fund.

2. The Committee recalled that the Fund was a joint venture of organizations and noted with regret that not all organizations were involved in nor consulted during the audit. Of the 23 organizations that participate in the Fund, 22 were unfortunately excluded from this exercise.

3. The Committee agreed with the request of the General Assembly to submit proposals for the fair and equitable representation of member organizations on the Board; nevertheless, the Committee expressed serious concerns related to the repartition of seats on the Board. The proposal to increase the number of United Nations Board seats was contradictory to the democratic principle of "one organization, one vote". The representation of all member organizations of the Fund was essential to its effective functioning.

4. For each participant of the Fund, the organization takes on a budgetary obligation towards the Fund and on behalf of the staff member; it is therefore unacceptable that an organization not have the right to partake in the decision-making process on matters that could eventually affect it. All member organizations should have their interests represented through the Board.

5. The three groups of the Committee unanimously agreed with the present statement. The Committee requested that the statement be shared with the Chair, the First Vice-Chair and the Second Vice-Chair of the Pension Board, the secretariat of the Fund and the staff pension committees of the other specialized agencies.

E. Joint statement by the Staff Pension Committee of the International Civil Aviation Organization

The ICAO Staff Pension Committee expressed its appreciation for the work done by OIOS on what is referred to as a "comprehensive" audit of the governance structure and related processes of the Pension Board.

The Committee was concerned that a substantial number of recommendations were in relation to the composition, functions and, to an extent, the performance of the Board, yet no mention was made of any dialogue with members of the Board.

Secondly, the Committee had a major issue with the recommendation suggesting that the membership of Board be determined on the basis of active participants. This, in the view of the Committee, would result in a lopsided representation on the Board, where the larger organizations with more participants would have more seats than the smaller ones. What should be looked at is a methodology that would allow all organizations to have equal participation at the level of the Board. At the level of the General Assembly, population size does not allow a State to have more votes, nor would the assessment level be used to determine the number of votes a State must have. The recommendation would surely affect specialized agencies and their representation on the Board.

The Committee highlighted, for information, the independence of ICAO as a specialized agency of the United Nations. Article XII, paragraph 2 (b), of the 1947 agreement between the United Nations and ICAO provides that the United Nations and ICAO agreed to cooperate to the fullest extent possible and in particular "to consult together concerning other matters relating to the employment of officers and staff, including conditions of service, duration of appointments, classification, salary scales and allowances, retirement and pension rights and staff regulations and rules, with a view to securing as much uniformity in these matters as shall be found practicable". This provides the basis for the independence of ICAO in such matters; even the United Nations may not unilaterally impose any such requirements on ICAO. Therefore any recommendation that would affect the representation and participation of ICAO on the Board would not be supported.

F. Joint statement by the Staff Pension Committee of the World Health Organization

The WHO Staff Pension Committee reviewed the OIOS draft report on a comprehensive audit of the governance structure and related processes of the Pension Board and takes this opportunity to provide the comments below.

The WHO Staff Pension Committee:

- Noted that some recommendations had already been made in the prior OIOS audit, in 2006
- Was concerned about the tone and numerous personal references made in the report
- Supported the need to maintain the Assets and Liabilities Monitoring Committee as an essential part of good financial governance to ensure oversight by the Fund's stakeholders and promote good coordination between the Investment Management Division and the Fund's secretariat

The key points to be discussed during the coming Board session, in the opinion of the Committee, are as follows:

- Ensure the continuation of a fair composition of the Board, to include the representation of all specialized agencies, including smaller ones. This is an essential component of good governance for a large and joint scheme to guarantee long-term stability.
- Review the role and mandate of the Standing Committee between Board sessions and reinforce the role of the other committees.
- Authorize electronic consultations, videoconferences or other mechanisms to address matters in addition to face-to-face sessions for all governance bodies.

- All staff pension committees should address both governance and disability cases.

In terms of next steps, the Committee was of the view that the OIOS report could be helpful in initiating a constructive dialogue around potential governance improvements. Given the collaborative and tripartite nature of the Fund's structure, the report required further and extensive discussions of all stakeholders. A working group should probably be established, the mandate of which would be to make its recommendations to the Board in 2019.

Lastly, the Committee urged that effective measures be taken to ensure that integrity and the highest ethical values be observed by all bodies and individuals involved in the governance, oversight and management of the Fund, at all times, and that relevant best practices implemented by member organizations be used as benchmarks for improvement and standard-setting.

The present statement is submitted on behalf of the Committee to the Chair and Vice-Chairs of the Board, the Deputy Chief Executive Officer of the Fund and the Secretaries of the staff pension committees of the specialized agencies.

G. Joint statement by the Staff Pension Committee of the International Fund for Agricultural Development

The IFAD Staff Pension Committee recently held meetings and interacted with the staff pension committees of other specialized agencies in preparation for the forthcoming meeting of the Pension Board, and in particular in regard to the audit report on the governance structure of the Board.

In that context and after a careful review of the audit report as well as other documents (e.g. General Assembly resolutions and decisions and a working paper of the Pension Board) related to the Board's governance and processes, the Committee's consensus view is that:

(a) The Fund is an entity established by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and the other organizations admitted to "membership". Therefore, it constitutes a "joint organization" of member organizations and therefore, as has already been emphasized by the Board (in a report of the working group undertaking a review of the size and composition of the Pension Board and its Standing Committee of 13 May 2004), it should be truly representative of the membership of the Fund, being a joint venture of organizations and not of participants or individuals. Therefore, the Committee was of the view that the principle of democracy and the spirit underlying the nature of the Fund should be fully reflected in the composition of its Board;

(b) It is of paramount importance that any criterion for review and adjustment of the current composition of the Board aiming to secure and improve the efficiency and effectiveness of its operations and processes (which IFAD encourages and supports), must first and always ensure the full representation of each member organization, including formal representation by retirees and beneficiaries;

(c) Recognizing the importance of the fair and equitable representation of member organizations in the Pension Board, the Committee was of the view that in no case should a single member organization create an imbalance in the overall membership or be able to concentrate the majority of voting rights. This would be clearly put into practice if the criteria of fair representation were based just on the number of active participants;

(d) Any member organization should have its interests represented through a Board member and the relevant organization's staff pension committee; moreover, and for pragmatic purposes, the exclusion of any member organization might cut the Board off from governance talent which may reside in that organization. IFAD, in its nature as an international financial institution and a specialized agency could probably represent and be a competitive advantage for the Pension Board in regard to its participation to the Investments Committee and/or in the Assets and Liabilities Monitoring Committee;

(e) The Committee was of the view that, given that: (i) the audit was conducted by OIOS, the internal oversight office of just one of the member organizations; (ii) other member organizations and their relevant staff pension committees were neither consulted on whether and how an audit should have been conducted nor on its scope and terms of reference; and (iii) other member organizations were not asked to participate in the fact-finding exercise, it had serious concerns about the validity of the report and its recommendations.

In view of the above-mentioned matters, the Committee was inclined to reject the report as a whole and to propose that a decision on its discussion and adoption be removed from the Board's agenda.

The Committee requested that the present statement be shared with the Chair, the First Vice-Chair and the Second Vice-Chair of the Board, the Fund secretariat and the staff pension committees of the other specialized agencies.

H. Joint recommendations of the Staff Pension Committee of the Food and Agriculture Organization of the United Nations and the World Food Programme

Recommendation	*Critical[a] or important[b]*	*Accepted?*	*Comments*
1. The Board should:	Important		
(a) Establish clear terms of reference for its members outlining, inter alia, the desirable competencies for their appointment and any appropriate restrictions or limitations;		(a) No	(a), (b) The FAO/WFP Staff Pension Committee considered that it would be difficult to impose desirable competencies and minimum requirements, as this would limit freedom of participation. Moreover, it believed that inclusion in the Board of individuals with different skills was desirable and should not be prevented through the establishment of rigid competency and qualification requirements. The duties and responsibilities of Board members had not been so clear, therefore detailed terms of reference would facilitate their role. It would be difficult to establish a fixed term of office, as the duration of assignments varied across organizations and different groups of Board members (management, participants, Member States), in addition to the changing professional commitments of the individuals concerned. On the other hand, it was believed that changing Board members at reasonable intervals (e.g. two years) would be desirable. The Committee was of the view, therefore, that Board appointments of a duration of two years should be encouraged rather than imposed;
(b) Establish a term of office for officers of the Board and members that provides for the desired continuity in their service;		(b) No	
(c) Review its current methodology for self-evaluation to make the exercise more effective and useful .		(c) Yes	(c) The Committee was of the view that an external independent evaluation would be more effective than the current self-evaluation model, and that SMART (specific, measurable, achievable, relevant and time-bound) objectives should be used for it.
2. The Board should:	Critical		
(a) Implement the General Assembly's request to submit proposals for fair and equitable representation of member organizations on the Board to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, and the changing nature of the Fund's member organizations;		(a) No	(a) While the number of FAO/WFP seats remained unchanged with the new proposal, the Committee expressed its concern that additional seats granted to the United Nations Staff Pension Committee would result in its having the greatest control over the Board. The matter had been addressed several times throughout the years, and the conclusion had always been that the current composition of the Board guaranteed the participation of all member organizations and that adding more seats would result in a less effective Board;

Recommendation	Critical[a] or important[b]	Accepted?	Comments
(b) Implement a rotation scheme that allows eligible member organizations to share the rotating seats in a fair and equitable manner.		(b) No	(b) The Committee agreed that the sharing of rotating seats should be done in a fair and equitable manner and that the proposal would limit democracy.
3. The Board should:	Important		
(a) Facilitate the election of retiree representatives to ensure the transparent and democratic representation of retirees and their interests;		(a) Neutral	With respect to recommendation 3 (a), the Committee maintained that a feasibility study should be carried out to verify how democratic an election process would be, considering that many beneficiaries might not have a valid email account. In principle, the Committee agreed with the recommendation per se of ensuring transparent and democratic representation, however believed that it would be difficult to organize elections of this nature. The Committee also believed that it should be left solely to FAFICS to define its election process and that the current process was rather comprehensive and followed a democratic procedure through regional and country representation.
(b) Establish appropriate mechanisms to avoid conflicts of interest between retiree representatives and the Fund's management.		(b) Neutral	
4. The Board should strengthen its governance of the Fund by:	Important		
(a) Increasing the frequency of meetings of the Standing Committee to provide more effective oversight of the Fund's operations;		(a) No	(a) The purpose of the Standing Committee is to serve as an "appeals body" that reviews decisions of the Secretary of the Board and of staff pension committees arising out of the application of the Regulations, Administrative Rules and Pension Adjustment System. An increase in the frequency of meetings would not seem to be justified;
(b) Entrusting the Standing Committee to act on the Board's behalf during periods when the Board is not in session;		(b) No	(b) The Committee found that the recommended course of action would empower the Standing Committee to micromanage the Fund's operations, which would not be desirable;
(c) Requiring the Board's other committees and the secretariat of the Fund to periodically submit their reports to the Standing Committee for better oversight and to reduce the burden on the Board's annual sessions.		(c) No	(c) This would cause the Standing Committee to impose itself over other committees and the Board secretariat rather than serving as an appeals instance, which is specified in section K of the Administrative Rules.

Recommendation	Critical[a] or important[b]	Accepted?	Comments
5. The Board should, in consultation with the Secretary-General, strengthen accountability for the services provided by the Fund's secretariat to the United Nations by separating the roles of the Chief Executive Officer and Secretary of the United Nations Staff Pension Committee and establishing an appropriate alternative structure, possibly under the responsibility of the Deputy Chief Executive Officer, to serve as the secretariat of the United Nations Staff Pension Committee.	Important	No	The Committee disagreed with this proposal, as the Deputy Chief Executive Officer, after all, reports to the Chief Executive Officer, so there would be no effective change in responsibilities. On the other hand, the Committee was of the view that the creation of a staff pension committee for each member organization currently under the United Nations Staff Pension Committee (i.e. UNICEF, UNDP, UNHCR and the United Nations) would be more efficient, would lead to a broader representation of all the member organizations on the Pension Board and would alleviate the burden of the Pension Fund having to service them directly. The United Nations could then apportion the 12 seats accordingly.
6. The Board should consider establishing standard duration of terms for staff pension committee representatives across member organizations or minimizing the current disparity in terms, which ranged from one to four years.	Important	Yes	The Committee maintained that frequent rotation did not help in building institutional knowledge. The duration of terms of office should be flexible, allowing each organization to decide, while ensuring that historical knowledge is maintained (at least two years would be advisable).
7. The Board should, in consultation with the Secretary-General, take measures to enhance the effectiveness of the United Nations Staff Pension Committee in playing its governance role instead of only dealing with disability cases, which could be assigned to a subcommittee.	Important	Abstain	The Committee had concerns with regard to the United Nations Staff Pension Committee, which did not have meetings on policy but only on disability, as the Secretary of the United Nations Staff Pension Committee is also the Secretary of the Pension Board. It agreed that the Committee should function as a separate body, and noted its concern with increasing interventions of the Secretary-General in Staff Pension Committee matters.
8. The Board should ensure that the Committee of Actuaries invites the Representative of the Secretary-General for the investment of the assets of the Pension Fund to attend the meetings of the Committee to strengthen coordination between the Committee and the Fund's	Important	Yes	While the Committee was generally of the view that it would not be harmful and might be a good thing for the Representative of the Secretary-General to attend selected meetings, as he or she would then be able to address at an early stage any issues that might arise, his or her direct involvement could be also interpreted as additional control over the management of the Fund. It is important that the Committee of Actuaries and the Representative of the Secretary-General work together, but, to

bifurcated management.			guarantee the separation of roles under the Fund's bifurcated nature, they should not rule over each other.

Recommendation	Critical? or important?	Accepted?	Comments
9. The Board should retire its Assets and Liabilities Monitoring Committee and reinforce the interaction between the Committee of Actuaries and the Investments Committee to safeguard the Fund's long-term solvency.	Critical	No	Review of the performance of the Fund and analysis of risk is complementary to the work of the Committee of Actuaries and the Investments Committee. There was no clear and strong explanation for the need to implement this proposal. It was not explained why the Committee of Actuaries and the Investments Committee would do a better job in safeguarding the Fund's long-term solvency on their own. As a general rule, the Committee would advise against concentrating the role and responsibilities of the different committees.
10. The Board should, in consultation with its Audit Committee, strengthen the criteria for the Committee's membership, its independence and its means to hold the management of the Fund accountable for the accuracy and completeness of the information presented to it.	Important	Yes	The Committee noted that updating the terms of reference would strengthen the membership criteria of the Audit Committee.
11. The Secretary-General should upgrade the Investment Management Division to an office ("Investment Management Office" or similar) to reflect that the responsibilities for the Fund's investments are vested in a full-time Representative of the Secretary-General with the rank of Assistant Secretary-General.	Important	Yes	The Committee was of the view that this was purely a terminological issue and had no objections to the change, provided that it had no impact on operations. The Committee underlined the importance of safeguarding the bifurcated structure of the Fund.
12. The Board should:	Critical		
(a) Separate the roles of its Secretary and the Fund's Chief Executive Officer;		(a) No	(a) The Committee maintained that separating the roles of the Board's Secretary and the Fund's Chief Executive Officer would be counterproductive, as the jobs were interconnected;
(b) Establish its own secretariat that is independent from the management of the Fund;		(b) No	(b) The Committee was of the view that establishing the Board's own secretariat, independent from the management of the Fund and disempower the Chief Executive Officer;
(c) Replace the title of Chief Executive Officer with one that more accurately describes the incumbent's restructured role;		(c) No	(c) The Committee did not see the reason for changing the Chief Executive Officer's title, as it seemed a way of disempowering the Chief Executive Officer;

Recommendation	Critical[a] or important[b]	Accepted?	Comments
(d) Consolidate the committees' secretariats under a unified Board secretariat;		(d) No	(d) In terms of structure, it did not seem justified to consolidate committee secretariats, and the Committee was of the view that doing so would be to the detriment of diversity and quality of work.
(e) Reconstitute the Fund's Executive Office to ensure that it is accountable to both entities of the Fund.		(e) No	
13. The Board should:	Important		The Committee supported the establishment of a mechanism for performance evaluation. Not only should the Board members be able to evaluate the Chief Executive Officer and Deputy Chief Executive Officer, but, as both are senior managers, their own staff should be given the opportunity to evaluate them. Moreover, the staff pension committee Secretaries should be involved in the process.
(a) Establish mechanisms to ensure that annual performance evaluations of the Chief Executive Officer and the Deputy Chief Executive Officer are conducted and documented based on clear metrics to hold them accountable for their performance;		(a) Yes	
(b) Ensure that the Fund secretariat's senior management is held accountable for annually appraising the performance of its staff.		(b) Yes	
14. The Board should take effective measures to ensure that the Fund's management sets the appropriate tone at the top with regard to integrity and ethical values.	Important	Yes	The recommendation would deter the work of the Pension Board, which deals with governance matters. Rather than the Board dealing with those issues, it was believed that Chief Executive Officer should take effective measures to encourage integrity and ethical values.
15. The Board should:	Important		The Committee was of the view that, based on situations that arose, the Chief Executive Officer should not be restricted from making operational decisions in the area of human resources. The Committee was of the view that the Chief Executive Officer should be able to establish temporary jobs in order to meet operational needs, under his or her authority and under the approved budget of the Board. Additional rules should not be created, as, de facto, the Board already approved the budget. The appropriateness of the Chief Executive Officer's decisions should be well justified, and he or she should be held accountable for such managerial decisions.
(a) Determine the appropriateness of the distribution of resources between programme and support functions;		(a) No	
(b) Strengthen monitoring to ensure that the Fund's management utilizes resources in accordance with legislative decisions.		(b) Yes	

Recommendation	Critical[a] or important[b]	Accepted[c]	Comments
16. The Board should assess the composition and procedures of the search panel for the Deputy Chief Executive Officer in the light of the deviations in and apparent arbitrariness of the process and determine whether the search should be restarted to ensure the integrity and fairness required in a competitive exercise.	Important	Yes	The Committee took note of concerns about the procedures followed. However, it was also of the view that in case the Board had doubts about a suitable candidate for the Deputy Chief Executive Officer post, the Fund's higher management (at the D-1 level) could take over the leadership role ad interim. The Committee noted that the new Deputy Chief Executive Officer would in fact also be assuming the role of the Chief Executive Officer (who is currently on sick leave), and that the Board should be cautious when making its choice. The Committee further noted that the phraseology used in this recommendation was inaccurate. A distinction should be made between the set-up of the Deputy Chief Executive Officer search committee and the issuance of the vacancy announcement, which was managed by the Office of Human Resources Management. The Committee was of the view that the Chair of the Board followed the correct procedures and performed her duties in professional manner.

[a] Addressing critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of the control and/or business objectives under review.

[b] Addressing important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of the control and/or business objectives under review.

I. Statements by and recommendations of the Federation of Associations of Former International Civil Servants

Letter dated 15 June 2018 from the President of the Federation of Associations of Former International Civil Servants addressed to the Deputy Director of the Internal Audit Division, Office of Internal Oversight Services

The Federation of Associations of Former International Civil Servants has received from the Chair of the United Nations Joint Staff Pension Board the detailed audit results of the governance audit of the Pension Board. As your 1 June memorandum sought comments by 18 June, prior to your finalizing the report, FAFICS, as a key stakeholder, is pleased to provide its comments. Although FAFICS was not invited to either the entry nor the exit conferences, we trust that our positions, with all the comments with regard to the recommendations, will be duly considered.

The FAFICS position on the detailed audit results is set out below.

FAFICS supports the substance of recommendations 10, 11, 13 and 14, regarding the Audit Committee, the Investment Management Office, performance evaluations and "tone at the top", respectively. Please note our particular comment on recommendation 14. Recommendation 2, regarding the size and composition of the Board, is also supported, but with a word of caution.

FAFICS is neutral on recommendation 15, regarding resource allocation.

FAFICS is unable to support your other recommendations, being 1, on terms of reference; 3, on retiree elections; 4, on the Standing Committee; 5, on splitting the United Nations Staff Pension Committee Secretary role from the Chief Executive Officer role; 6, on standard terms; 7, on assigning disability cases to a new subcommittee; 8, on the Committee of Actuaries; 9, on the Assets and Liabilities Monitoring Committee; 12, on splitting the role of Secretary from that of the Chief Executive Officer; and 16, on procedures for the Deputy Chief Executive Officer search panel.

The objections of FAFICS to recommendations 3 and 9, regarding retiree elections and the Assets and Liabilities Monitoring Committee, are so fundamental that we request that you withdraw those proposals.

Recommendations of the Federation of Associations of Former International Civil Servants

Recommendation	*Critical[a] or important[b]*	*Accepted?*	*Comments*
1. The Board should: (a) Establish clear terms of reference for its members outlining, inter alia, the desirable competencies for their appointment and any appropriate restrictions or limitations; (b) Establish a term of office for officers of the Board and members that provides for the desired continuity in their service; (c) Review its current methodology for self-evaluation to make the exercise more effective and useful.	Important	No	The Board and the General Assembly over a period of more than 60 years have developed extensive and detailed regulations and rules. This is a live document, which comprehensively serve the needs of the Assembly, the Board and subsidiary bodies. OIOS offers no evidence that the groups need more guidance in selecting their representatives. As for standard terms of office, the present arrangements provide each group sufficient flexibility to meet their needs in balancing participation in the long and short term. Indeed, while a standard term may suit one group, it would be unnecessarily rigid for another. As for self-evaluation by the Board, it may be anticipated that change will come as needs arise. This has been amply demonstrated over the years, during which time we have had 19 versions of the rules and regulations.
2. The Board should: (a) Implement the General Assembly's request to submit proposals for fair and equitable representation of member organizations on the Board to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, and the changing nature of the Fund's member organizations; (b) Implement a rotation scheme that allows eligible member organizations to share the rotating seats in a fair and equitable manner.	Critical	Yes, with caution	This difficult subject needs to be understood in its historical context, so it is suggested that it be considered under the title "Size and composition of the Board", which is the one traditionally used by the Board and the General Assembly. The approach should fully respect the need to ensure the representativeness of all member organizations, large and small. This inevitably means a trade-off between speed and efficiency on the one hand and authentic representation on the other. Given difficult experiences in the past, the Board should limit any exercise to two years so as to provide the impetus necessary to provide an acceptable solution for all parties. With respect to the statement by OIOS that, since the Board made its decision by consensus, these non-voting members virtually yielded the same powers as voting members" (with non-voting members referring to staff pension committee representatives and FAFICS), this is a troubling value judgment that by its nature can be neither validated nor invalidated. However, it bears pointing out that the Assembly, in the context of the deliberations of the Fifth Committee, relies very heavily on consensus decision-making as a norm.

Recommendation	Critical[a] or important[b]	Accepted?	Comments
3. The Board should: (a) Facilitate the election of retiree representatives to ensure the transparent and democratic representation of retirees and their interests; (b) Establish appropriate mechanisms to avoid conflicts of interest between retiree representatives and the Fund's management.	Important	No	The detailed audit results contain a number of material inaccuracies that seriously undercut recommendation 3. Regarding the representation of beneficiaries, the description by OIOS of FAFICS governance is incorrect and materially incomplete. The recommendation would amount to the dissolution of FAFICS by placing the selection of delegates under the authority of the Board. It fails to state that FAFICS is a member of the Conference of Non-Governmental Organizations in Consultative Relationship with the United Nations. It omits mention of the very underpinnings of the democratic machinery of FAFICS in its statutes and rules of procedure, both of which are easily available on the FAFICS website (www.fafics.org). The picture painted by OIOS is wrong and many years out of date. According to the FAFICS statutes, the governance structure of the Federation is as follows: 1. The Council, which shall meet at least once a year and be responsible for the activities of the Federation, shall consist of representatives of each member association (article 4). 2. The officers of FAFICS who constitute its Bureau are: (a) The President; (b) The Vice-Presidents; (c) The Secretary; (d) The Treasurer; (e) Ex-officio, the Chair of the Standing Committee on Pension Issues; (f) Ex-officio, the Chair of the Standing Committee on After-Service Health Insurance. The officers are elected by the Council in accordance with the duly established rules of procedure. The FAFICS Bureau meets prior to the Pension Board meeting and at least once afterward. Furthermore, FAFICS has two standing committees, one on pension issues and one on after-service health insurance. The Standing Committee on Pension Issues meets every year immediately prior to the FAFICS Council. The terms of reference of the Standing Committee are to discuss pension matters and, in particular, develop positions on issues on the agenda of the Pension Board. Participation in the meetings of the Standing Committee is open to all

Recommendation	Critical[a] or important[b]	Accepted?	Comments
			member associations. The Chair and Vice-Chair submit documents on all items on the Standing Committee's agenda, which are distributed in advance to all member associations for their consideration. The Standing Committee produces a report that is submitted to the Council, which considers the report and adopts the positions to be taken by the FAFICS representatives attending the meetings of the Pension Board. Thus, there is full transparency in the policymaking process. The statement that there were 10 FAFICS representatives on the Board or its committees and/or working groups is incorrect, as most of the committee and working group members do double duty as Board representatives. FAFICS has six members on the Board (four representatives and two alternates). In 2017, of the six representatives, four served on the Standing Committee and two served on the budget working group. Two also represent FAFICS on the Assets and Liabilities Monitoring Committee. In addition, there is one FAFICS alternate to the Assets and Liabilities Monitoring Committee and one FAFICS representative on the Audit Committee. Neither alternate attends. The two FAFICS representatives on the panel to select a Deputy Chief Executive Officer are also FAFICS representatives on the Pension Board, as are the representatives of the other three stakeholder constituents. With regard to retiree representation "in similar sized public pension funds", this statement is not supported by any facts. To which public pension funds does OIOS refer? What is the size of their boards? The Pension Fund is a unique global fund with 23 member organizations operating in over 190 countries and in multiple currencies and can hardly be compared with any other public (national) pension fund. As we know, given that the Pension Board is several times the size of many public pension boards, it is not surprising that the United Nations needs more than one retiree representative to cover the wide range of global issues which the Board addresses in its large agenda. In terms of diversity, it should also be understood that 69,000 retirees from around the world and from over 20 member organizations cannot be represented by one person. The role of FAFICS is comparable to that of the three tripartite groups (governing bodies, executive heads and participants' representatives), who are each represented by 11 members, plus alternates. In this context, four plus two representatives for FAFICS is distinctly modest, if not insufficient.

Recommendation	*Critical[a] or important[b]*	*Accepted[c]*	*Comments*
			While OIOS appears to confuse the concept of direct elections with democracy, democracies encompass both direct and indirect electoral arrangements. According to a letter dated 4 March 2018 from the President of FAFICS to the Under-Secretary-General for Internal Oversight Services, direct elections of retiree representatives to the Pension Board, envisaged to be held independent of associations of former international civil servants and of their federation (FAFICS), would deprive electors of the opportunity to assess candidates and issues in the context of their deliberative councils and committees. Present arrangements for elections ensure that all questions of substance are the subject of informed consent about retiree matters at the levels of associations of former international civil servants and FAFICS. Direct elections would in fact impoverish the contribution which retirees are currently able to make to the governance processes of the Pension Board. In addition, great care would be needed to ensure that any voting arrangements were logistically viable and practicable. The OIOS statement that FAFICS representatives were not elected through a democratic process is wrong. Clearly, OIOS did not review the Federation's present rules of procedure, which have been in place since 2014. Thus, the description of the selection process is totally misleading and inaccurate. For the benefit of OIOS, the procedure for the appointment of the FAFICS delegation to the Pension Board is reproduced from the rules of procedures, as follows: **Procedure for the appointment of FAFICS representatives to the Pension Board** The FAFICS delegation to the Pension Board consists of four representatives and two alternates. 1. The President of the Federation shall be ex officio the head of the FAFICS delegation. 2. The Chair of the FAFICS Standing Committee on Pension Issues shall be ex officio member of the FAFICS delegation. 3. The remaining two representatives and the two alternates shall be nominated by the President in consultation with the Bureau. 4. In establishing the FAFICS delegation to the Pension Board, the following criteria will be applied:

Recommendation	Critical[a] or important[b]	Accepted?	Comments
			5. The representatives should be well versed in pension matters, both policy and practical; have negotiating skills; and be disposed to commit themselves to the work involved for a number of years. (a) The representatives should be familiar with the procedures and unique structure of the Pension Board and its Standing Committee; (b) The two alternative representatives may be chosen with a view to ensuring the continuity of sound FAFICS representation at the Pension Board. 6. The proposed composition of the FAFICS delegation to the Pension Board should be circulated to the Council on the first day of the Council session. 7. The representatives and alternates should be formally appointed by the Council. The FAFICS representatives are accountable for defending FAFICS positions before the Pension Board. They report to the 61 member associations on the outcome of the Board's session and the positions adopted on behalf of the Federation. Those reports are posted on both the FAFICS website and the website of the member associations to promote transparency of the Pension Fund. FAFICS rejects the OIOS statement that FAFICS is not a representative organization of Fund retirees. FAFICS was founded in 1975. According to its statutes, FAFICS represents the community of former international civil servants on appropriate organs of the United Nations system and in particular retirees and beneficiaries of the Fund. Its role has long been recognized by the Board, which admitted FAFICS, initially as observer to the Board, as early as 1977, when retirees first constituted a critical mass. As of July 2017, FAFICS had 61 member associations. Given its global representation, FAFICS is indeed a highly representative organization of Fund retirees. The statement by the Chief Executive Officer in 2007 that the selection of the representatives should continue to be done by FAFICS in consultation with the Pension Fund's Chief Executive Officer has been portrayed as suggesting that the Chief Executive Officer was involved in the selection of the FAFICS representatives. The consultation at that time was solely with regard to the travel expenses of representatives to be covered by the Fund. As stated above, the FAFICS representatives are appointed by the Council

Recommendation	Critical[a] or important[b]	Accepted?	Comments
			in accordance with its rules of procedure. The selection process is transparent, and there are no consultations with the Chief Executive Officer on the composition of the FAFICS delegation, which is decided by the Federation. It should be noted that the decision governing numbers of FAFICS representatives falls to the Pension Board, as the rules of procedure are within the province of the Board. In this case, rule A.9 (c) specifies four representatives and two alternates for FAFICS. An attempt has been made by OIOS to link the chairing of the budget working group last year by a FAFICS representative to the budgetary provision for FAFICS representation. In this regard, it should be noted that the budget working group composition regularly rotates among all constituent groups of the Board. It is believed this was the first time a FAFICS representative had chaired the group since its inception in 2004. OIOS notes that costs relating to the participation of all FAFICS representatives in meetings of the Board's committees and working groups were absorbed by the Fund. OIOS failed to note, however, that this is equally the case for most costs related to representatives of governing bodies, executive heads and representatives of participants. To isolate FAFICS on this point appears discriminatory. OIOS is of the view that the circulation of a letter by the Pension Fund secretariat gave the appearance of collusion between FAFICS and the Fund's management, which in point of fact reflected normal day-to-day interaction between secretariats. Just as the United Nations administration circulates staff union material through the Organization's broadcast network and iSeek, so too does the Fund circulate material to retirees, as it maintains the database of retiree addresses as part of its regular functions. In a retirement letter of February 2018, the outgoing president of a retiree association affiliated with FAFICS informed her constituents that the FAFICS leadership should be strongly reminded by its members that its task is to protect, defend and advance the rights of all United Nations retirees, not those of the Chief Executive Officer. FAFICS is astonished that OIOS is quoting from an internal letter of a former president of an association of former international civil servants to the members of her association. The FAFICS leadership does not need to be reminded of its responsibilities vis-à-vis its members and rejects any notion that it considers itself responsible to the Chief Executive Officer. Moreover, to cite the personal opinion of a single individual who has no function in the governance of FAFICS is

Recommendation	Critical[a] or important[b]	Accepted[c]	Comments
			unacceptable, unprofessional and not in line with international standards of internal audits. FAFICS firmly rejects the assertion by OIOS that FAFICS had been incorrect by stating in its January 2018 letter that the delays in pension payments were largely a thing of the past. Mathematical analysis of the payment backlog arising from the transition to the Integrated Pension Administration System in 2015, based on information in the audited financial statements up to 31 December 2016, indicates that the payment backlog for all primary periodic benefits (i.e. full retirement, early retirement and disability) was eliminated prior to mid-2017. In fact, it had been substantially cleared by January 2017. This analysis forecasts the regular caseload based on solid, high-certainty trends and compares it with the audited number of cases reported to have been processed. The backlog for these benefits appears to have been just under 700 as at 31 December 2015, peaked in February 2016 at 700-plus cases and was less than 100 cases by 31 December 2016. This analysis is consistent with a 2017 report of OIOS that reported a peak in early 2016. OIOS, however, failed to report on what happened to the backlog curve after that. This analysis shows that the backlog was reduced almost as quickly as it was built up. It was substantially cleared by the time that that report was published in 2017; it had in fact peaked before the commencement of that audit. A further "payment backlog" of 15,000 items reported more recently is not a payment backlog at all. It is an accumulation of what the Fund refers to as "workflow" items, indicating that a benefit might be payable. In effect, they are mostly a result of breaks in service for short-term staff. The vast majority of these people will re-enter the Fund when they are re-engaged by a member organization, or will elect a deferred benefit. Thus, there is no payment backlog (see chart below). Staff pension committees are not "essentially a forum for participants". As OIOS states, the staff pension committees of other organizations focused mainly on governance matters. Staff pension committees, in addition to reviewing disability cases, also discuss issues on the agenda of the Board that may also affect retirees and beneficiaries. Staff pension committees appoint their Board delegation and may submit documents to the Board. It should be noted that the retiree representatives on staff pension committees are elected or appointed by the applicable retiree association of former staff members of the member organization and not by FAFICS. The January 2018 letter from FAFICS referring to the Secretary-General's authority

Recommendation	*Critical[a] or important[b]*	*Accepted?*	*Comments*
			reflects the fact that the Secretary-General has no independent power to nominate or appoint a Chief Executive Officer of the Fund. Article 7 of the Regulations, as approved by the General Assembly, requires that such appointments by the Secretary-General be made on the recommendation of the Board. The regulation entertains no other channel in this respect. In summary, recommendation 3 should be withdrawn by OIOS due to the multiple flaws in the detailed audit results. This action is clearly required under paragraph 8 of the OIOS Audit Manual. OIOS has sought and failed to demonstrate that FAFICS officers are not elected through a democratic process.
4. The Board should strengthen its governance of the Fund by: (a) Increasing the frequency of meetings of the Standing Committee to provide more effective oversight of the Fund's operations; (b) Entrusting the Standing Committee to act on the Board's behalf during periods when the Board is not in session; (c) Requiring the Board's other committees and the secretariat of the Fund to periodically submit their reports to the Standing Committee for better oversight and to reduce the burden on the Board's annual sessions.	Critical	No	The proposal assumes that there is a need for more frequent meetings of the Standing Committee so that it can provide more effective oversight of the Fund's operations. However, there has been no demonstrated need for more frequent meetings of the Standing Committee. Indeed, more frequent meetings of the Standing Committee could undermine the Board's own authority and diminish its accountability. The Standing Committee could even slide into the role of an executive committee that instructs the Chief Executive Officer on how to do his or her job. Such micromanagement would be a step backwards for the Fund and would certainly require revisions to the rules of procedure. Overall, it would weaken, not strengthen, Fund governance. The proposal should be dropped.
5. The Board should, in consultation with the Secretary-General, strengthen accountability for the services provided by the Fund's secretariat to the United Nations by separating the roles of the Chief Executive Officer and Secretary of the United Nations Staff Pension Committee and establishing an appropriate alternative structure, possibly under the responsibility of the Deputy Chief Executive Officer, to serve as the secretariat	Important	No	The proposal is floated that, in the future, services currently provided by the Secretary of the Board to the staff pension committees should be provided by another entity, such as the office of the Deputy Chief Executive Officer. This would add unnecessary administrative expenses to the budget for no clear benefit.

Recommendation	Critical[a] or important[b]	Accepted[c]	Comments
of the United Nations Staff Pension Committee.			
6. The Board should consider establishing standard duration of terms for staff pension committee representatives across member organizations or minimizing the current disparity in terms, which ranged from one to four years.	Important	No	It is felt that introducing a standard duration of terms of office for staff pension committee members would unnecessarily add rigidity to a system that needs to be more, not less, flexible in recognizing the different needs of the constituent parts of the Fund (governing bodies, executive heads and participants' representatives).
7. The Board should, in consultation with the Secretary-General, take measures to enhance the effectiveness of the United Nations Staff Pension Committee in playing its governance role instead of only dealing with disability cases, which could be assigned to a subcommittee.	Important	No	This would only relabel matters and would not create genuine economies, but rather add complexity and cost to the governance structure. In addition, it would send the wrong message to persons with disabilities as regards the lower level of attention to be accorded to this group.
8. The Board should ensure that the Committee of Actuaries invites the Representative of the Secretary-General for the investment of the assets of the Pension Fund to attend the meetings of the Committee to strengthen coordination between the Committee and the Fund's bifurcated management.	Important	No	Existing procedures already provide for joint meetings of the Committee of Actuaries and the Investments Committee when a real rate of return is to be selected as part of modelling for estimating the actuarial balance of Fund investments. The current ad hoc approach best serves the Fund.
9. The Board should retire its Assets and Liabilities Monitoring Committee and reinforce the interaction between the Committee of Actuaries and the Investments Committee to safeguard the Fund's long-term solvency.	Important	No	The establishment of asset-liability monitoring processes for the Fund has been evolving. The initial efforts arose out of a need to find something more comprehensive than simple actuarial projections of income and expenditure flows to highlight future possible shortfalls. A working group of the Board reported in 2017 that sustainability of the Fund would require much more sophistication in projecting cash flows that would need to be based on a wide range of possible assumptions regarding economic and demographic factors. Solvency can be assured only if more than just routine cases are to be considered. Hence, stress testing was needed to complement risk budgeting and risk management work being under taken for the investments. The use of asset and liability management methods has had the positive effect of ensuring that the assets and liabilities sides of the Fund

Recommendation	Critical[a] or important[b]	Accepted?	Comments
			talk to each other. The Board has significantly benefited from the existence of the Assets and Liabilities Monitoring Committee. With its members, drawn from the four constituent parts, it has educated the Board at large by explaining key complexities in ways that specialist actuaries and investors cannot and have not been able to do. The Investments Committee and the Committee of Actuaries, consisting solely of experts, have limited accessibility to lay members of the Board. FAFICS believes that the integrity of the Fund and its sustainability require that a strong Assets and Liabilities Monitoring Committee remain in place. OIOS should withdraw the proposal for lack of merit.
10. The Board should, in consultation with its Audit Committee, strengthen the criteria for the Committee's membership, its independence and its means to hold the management of the Fund accountable for the accuracy and completeness of the information presented to it.	Important	Yes	The Board needs a strong audit committee to help ensure that internal and external audit functions are exercised with energy and determination. As for criteria to be used for the selection of potential audit committee members, FAFICS is pleased to have designated a member who has vast United Nations audit experience and an impeccable record. We trust that any criteria devised to help select future members will ensure membership quality of the highest level.
11. The Secretary-General should upgrade the Investment Management Division to an office ("Investment Management Office" or similar) to reflect that the responsibilities for the Fund's investments are vested in a full-time Representative of the Secretary-General with the rank of Assistant Secretary-General.	Important	Yes	The renaming, in and of itself, will have no effect on operations.
12. The Board should: (a) Separate the roles of its Secretary and the Fund's Chief Executive Officer; (b) Establish its own secretariat that is independent from the management of the Fund; (c) Replace the title of Chief Executive	Critical	No	While it is possible to envisage a theoretical separation of the two roles, there is not likely any net benefit to be achieved in practice from such a separation. Indeed, one of the strengths of the current arrangement is that the authority to act on mandates of the Board is readily available to the Secretary in his or her executive role. Splitting the two functions could result in increases in organizational tension, wasting energy without achieving any operational improvements. A structure with two competing senior positions at the top of the Fund represents an unnecessary new risk for the Fund that should be avoided in the interests of harmony and

Officer with one that more accurately describes the incumbent's restructured role;

efficiency.

Recommendation	Critical[a] or important[b]	Accepted?	Comments
(d) Consolidate the committees' secretariats under a unified Board secretariat;			
(e) Reconstitute the Fund's Executive Office to ensure that it is accountable to both entities of the Fund.			
13. The Board should: (a) Establish mechanisms to ensure that annual performance evaluations of the Chief Executive Officer and the Deputy Chief Executive Officer are conducted and documented based on clear metrics to hold them accountable for their performance; (b) Ensure that the Fund secretariat's senior management is held accountable for annually appraising the performance of its staff.	Critical	Yes	This is a highly desirable objective which needs careful construction and implementation so as to ensure a successful outcome. The Board should be briefed on technical measures needed to achieve this elusive key objective.
14. The Board should take effective measures to ensure that the Fund's management sets the appropriate tone at the top with regard to integrity and ethical values.	Critical	Yes	The adoption of the proposal would imply that the Board would relax its use of the "restricted" designation of all of its documents. It would also need to be more careful in its procurement and recruitment activities. Zero-tolerance policies used in the Procurement Division of the United Nations could be used as models. FAFICS supports the recommendation concerning integrity and ethical values, but cautions that it could be misinterpreted as alluding to previous unproven allegations against the Fund's management.
15. The Board should: (a) Determine the appropriateness of the distribution of resources between programme and support functions; (b) Strengthen monitoring to ensure that the Fund's management utilizes resources in accordance with legislative decisions.	Important	Neutral	The distribution of resources between programme and support functions should be handled in a consistent manner from one budget period to the next. The inconsistent application of labels to resources as programme and support costs can make it appear that operations are becoming more or less efficient, when in fact things are barely changing. FAFICS doubts that this is really an important enough issue to feature in a governance review.

Recommendation	*Critical[a] or important[b]*	*Accepted?*	*Comments*
16. The Board should assess the composition and procedures of the search panel for the Deputy Chief Executive Officer in the light of the deviations in and apparent arbitrariness of the process and determine whether the search should be restarted to ensure the integrity and fairness required in a competitive exercise.	Important	No	While FAFICS is disturbed by claims by OIOS of deviations and apparent arbitrariness in the process, it is inappropriate to comment on an ongoing recruitment process, which could indeed interfere with the outcome.

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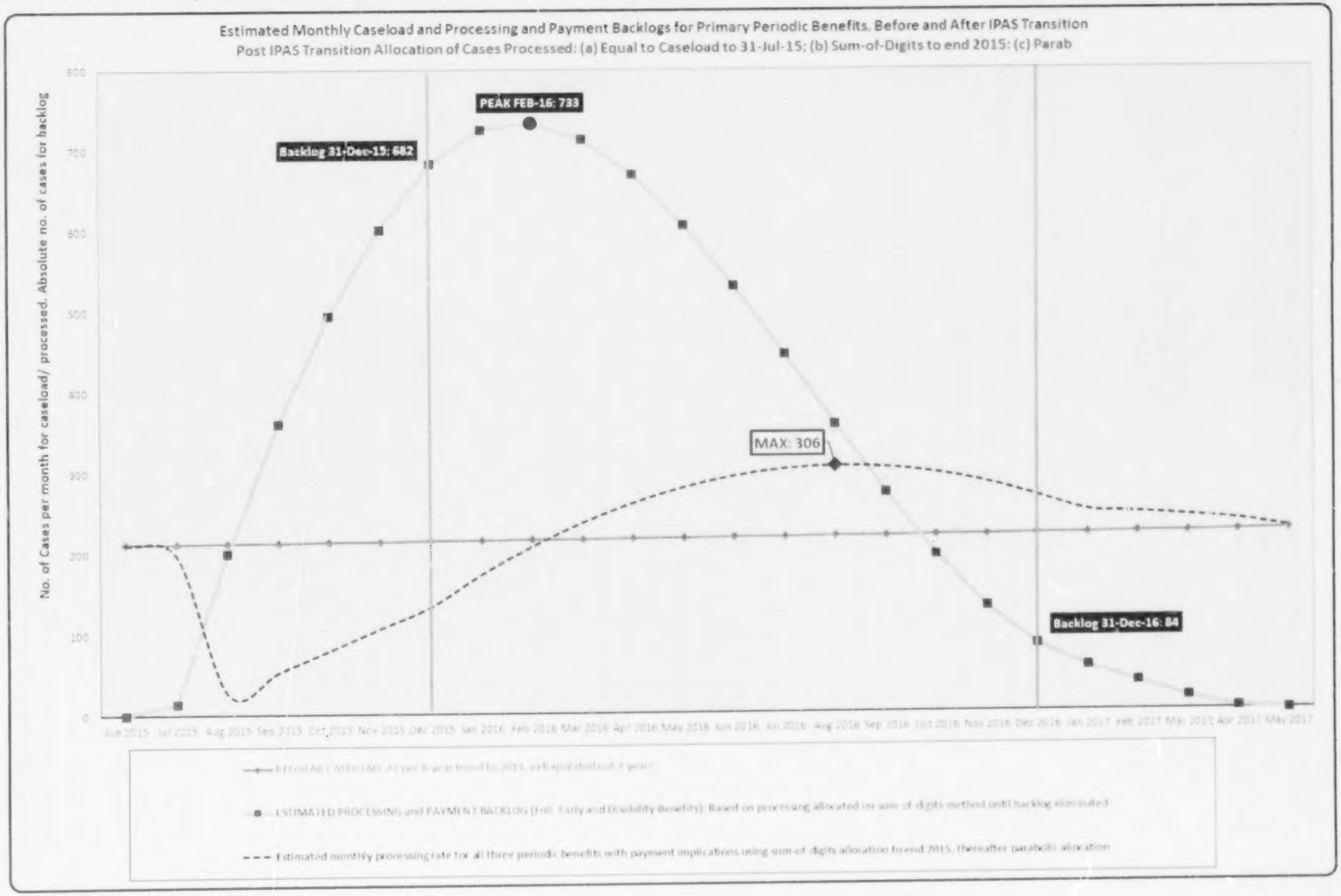
[a] Addressing critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of the control and/or business objectives under review.

[b] Addressing important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of the control and/or business objectives under review.

Estimated caseload, processing rates and backlogs attributable to the Integrated Pension Administration system, 2015–2017



Memorandum dated 31 July 2018 from the Federation of Associations of Former International Civil Servants addressed to the Chair of the Pension Board containing the remarks of the President of the Federation

FAFICS appreciates the opportunity to share with you its views on the OIOS report covering its audit of the governance arrangements of the Pension Fund (see A/73/341). The subject is large and the matter is of great importance to all retirees, so your indulgence is sought for this statement.

Let me begin by emphasizing the need for this Board to allocate the time and effort needed to do justice to the topic. FAFICS has taken the exercise very seriously and put much effort into it. While we would wish to see the maximum output by the Board at this session, we also believe that any undue haste could cause real damage to the Fund, the United Nations common system and its staff, retirees and organizations. Accordingly, any agreed decisions for change must be thoroughly investigated and tested before final approval and implementation.

Before going into detail, I feel obliged to present a simple message from FAFICS to this Board as a whole. The OIOS report is ridden with errors, biased, unprofessional and therefore unacceptable as a basis for action by the Fund and the General Assembly. We will demonstrate this as we proceed in our review of the note by FAFICS to the Board on the representation of retirees on the Board.

The provisional report of OIOS provided in June recommends some 13 changes as compared to its original 16 recommendations provided in July. Most of the changes are relatively small, and in this connection it should be noted that they are far from being of equal weight. FAFICS appreciates that over the long term OIOS has conducted a number of valuable audits of the Fund, but this is not one of them. We support 7 of the 13 provisional recommendations, in varying degrees. This even includes, to some extent, review of the size and composition of the Board, but with some words of caution. We do have unresolved concerns regarding six other items. These problematic recommendations relate to terms of reference of Board members, election of retiree representatives, proposed Standing Committee changes, dissolution of the Assets and Liabilities Monitoring Committee, separation of the functions of the Chief Executive Officer and Secretary of the Board and the search arrangements for a Deputy Chief Executive Officer.

FAFICS shared with OIOS its concerns regarding the initial 16 recommendations by providing comments and corrections on the proposals within the deadlines provided. We were disappointed that much of what we provided was not acted upon by OIOS. Nevertheless, with respect to the first recommendation, we were pleased to see that recommendation 1 (b), to establish a term of office for officers of the Board and members that provides for the desired continuity in their service, was dropped, particularly as we had recommended against it. As for recommendation 2, regarding the size and composition of the Board, FAFICS is somewhat pessimistic as to the eventual result. Hence, our caution not to invest too many resources in this item.

Item 3 is by far the most critical item for retirees in the whole governance review. The original recommendation has been modified by OIOS to split off into a separate recommendation the latter part regarding mechanisms to avoid possible conflicts of interest and a very precipitate recommendation to determine the number of seats to be allotted to retirees. There is no way that FAFICS could agree to direct elections, and the reasons are set out in detail in a separate document. The quoted document provides full information as to the serious weaknesses in the OIOS recommendations regarding direct elections. There has been a failure to properly portray the status of FAFICS as an autonomous non-governmental organization registered in Switzerland and in consultative status with the Economic and Social Council, which oversees the implementation of its resolution 1996/31, ensuring that accreditation standards are met. Finally, regarding an attempt by some to create confusion by asserting that only direct elections ensure democracy, it should be sufficient to say that indirect elections are alive and well as a democratic mechanism. Googling will quickly reveal that the Chancellor of Germany, the Prime Minister of the United Kingdom, the Senate in France, the President of the United States and of 53 Commonwealth countries and the Secretary-General of the United Nations are all elected by indirect elections. Recommendation 3, if implemented, would lead to the destruction of over 47 years of work building representative machinery for retirees to relate to the Fund through the structure of FAFICS and the global Association of Former International Civil Servants network of associations.

Recommendation 5, to have the Standing Committee meet more often, is based on the false assumption that there is a need for more frequent meetings. FAFICS believes this could undermine the Board's own authority and diminish its accountability. It could even slide into becoming an executive committee trying to micromanage and weaken the Chief Executive Officer. For these reasons the role of Standing Committees and the frequency of meetings should remain as is.

Recommendation 6, to retire the Assets and Liabilities Monitoring Committee, is not supported by FAFICS, as the Committee has proved its usefulness. The Committee has helped the assets and liabilities sides of the Fund work together. The integrity of the Fund and its sustainability require a strong Assets and Liabilities Monitoring Committee. Tinkering with the Investments Committee and the Committee of Actuaries would dilute their focus, leading to uncertainty regarding which has primacy in pursuing solvency, and would still not involve the Board, which should be the lead entity in ensuring solvency.

Recommendation 7, to strengthen the Audit Committee and its independence, is strongly supported by FAFICS.

Recommendation 8 would split the roles of the Board Secretary and the Fund's Chief Executive Officer, establish its own secretariat, replace the Chief Executive Officer title, consolidate the Committees' secretariats and reconstitute the Executive Office. FAFICS cannot support splitting the two roles, which would increase organizational tension and waste energy by setting up a structure where two competing senior positions at the top of the Fund would represent an unnecessary new risk for the Fund. Nevertheless, the Executive Office should be reconstituted, efficiency pursued and harmony promoted.

Recommendation 9, to improve evaluation arrangements at all levels, is robustly supported.

Similarly recommendation 10, to set an appropriate tone at the top, is also firmly accepted; it is also noted that the proposal would imply that the Board would relax the use of the "restricted" designation of all its documents. Procurement and recruitment activities would need to be handled most carefully.

Recommendation 11, to rebalance resources between programme and support functions, is accepted.

Recommendation 12, regarding arrangements for the Deputy Chief Executive Officer search committee, cannot be accepted, as it would be inappropriate to comment on an ongoing recruitment process, which could indeed interfere with the outcome.

Finally, recommendation 13, whereby proper succession planning would be put in place for the positions of Chief Executive Officer and Deputy Chief Executive Officer, is supported.

In conclusion, let me summarize that we support 6 out of the 13 recommendations of OIOS. Of the seven we could not support, the election arrangements were the most important to FAFICS. Additionally, arrangements for the Standing Committee, the Assets and Liabilities Monitoring Committee and the splitting of roles of the Chief Executive Officer and Secretary inspire no confidence. Most of all, concerns regarding the unacceptability and inappropriateness of direct elections are a major sticking point. These issues go to the core of an independent representational entity such as FAFICS. The Federation, with an independent legal personality, cannot be treated and directed as if it were a subsidiary organ of the Pension Board or the General Assembly. FAFICS must be free to choose the most appropriate democratic election method, which will secure the most representative and qualified individuals to serve with the Board. To accept arbitrary treatment imposing direct elections would be tantamount to union-busting, based on false logic and distorted facts. If accepted, this would relieve FAFICS of its value as a component of the United Nations pension system. We remain available to assist the Board in completing the current difficult exercise.

J. Statement by the Secretary-General

Memorandum dated 18 June 2018 from the Chef de Cabinet addressed to the Deputy Director, Internal Audit Division, Office of Internal Oversight Services

1. Please refer to your memorandum dated 1 June 2018, attaching the detailed results of the above audit and seeking comments on the recommendations contained therein by 18 June 2018.

2. With respect to recommendation 11, which is addressed to the Secretary-General, the Secretary-General considers that in view of the fact that the role of the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund is now full-time, at the level of Assistant Secretary-General, it would be appropriate to upgrade the Investment Management Division to an Office.

3. With respect to recommendation 7, which was addressed to the Pension Board "in consultation with the Secretary-General", the Secretary-General considers that because this recommendation relates to the effectiveness of the United Nations Staff Pension Committee, a body comprising all three constituent groups, this recommendation would best be addressed to the Staff Pension Committee.

4. The Secretary-General consider that the remaining 14 recommendations need to be addressed by the Pension Board.

Recommendations of the Secretary-General

Recommendation	*Critical*[a] *or important*[b]	*Accepted?*	*Comments*
1. The Board should: (a) Establish clear terms of reference for its members outlining, inter alia, the desirable competencies for their appointment and any appropriate restrictions or limitations; (b) Establish a term of office for officers of the Board and members that provides for the desired continuity in their service; (c) Review its current methodology for self-evaluation to make the exercise more effective and useful.	Important		This is a matter for the Pension Board
2. The Board should: (a) Implement the General Assembly's request to submit proposals for fair and equitable representation of member organizations on the Board to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, and the changing nature of the Fund's member organizations; (b) Implement a rotation scheme that allows eligible member organizations to share the rotating seats in a fair and equitable manner.	Critical		This is a matter for the Pension Board
3. The Board should: (a) Facilitate the election of retiree representatives to ensure the transparent and democratic representation of retirees and their interests;	Important		This is a matter for the Pension Board

Recommendation	Critical[a] or important[b]	Accepted?	Comments
(b) Establish appropriate mechanisms to avoid conflicts of interest between retiree representatives and the Fund's management.			
4. The Board should strengthen its governance of the Fund by:	Critical		This is a matter for the Pension Board
(a) Increasing the frequency of meetings of the Standing Committee to provide more effective oversight of the Fund's operations;			
(b) Entrusting the Standing Committee to act on the Board's behalf during periods when the Board is not in session;			
(c) Requiring the Board's other committees and the secretariat of the Fund to periodically submit their reports to the Standing Committee for better oversight and to reduce the burden on the Board's annual sessions.			
5. The Board should, in consultation with the Secretary-General, strengthen accountability for the services provided by the Fund's secretariat to the United Nations by separating the roles of the Chief Executive Officer and Secretary of the United Nations Staff Pension Committee and establishing an appropriate alternative structure, possibly under the responsibility of the Deputy Chief Executive Officer, to serve as the secretariat of the United Nations Staff Pension Committee.	Important		This is a matter for the Pension Board
6. The Board should consider establishing standard duration of terms for staff pension committee representatives across member organizations or minimizing the current disparity in terms, which ranged from one to four years.	Important		This is a matter for the Pension Board

Recommendation	*Critical[a] or important[b]*	*Accepted?*	*Comments*
7. The Board should, in consultation with the Secretary-General, take measures to enhance the effectiveness of the United Nations Staff Pension Committee in playing its governance role instead of only dealing with disability cases, which could be assigned to a subcommittee.	Important		As this recommendation relates to the effectiveness of the United Nations Staff Pension Committee, a body comprising all three constituent groups, the Secretary-General considers that this recommendation would best be addressed to the Committee
8. The Board should ensure that the Committee of Actuaries invites the Representative of the Secretary-General for the investment of the assets of the Pension Fund to attend the meetings of the Committee to strengthen coordination between the Committee and the Fund's bifurcated management.	Important		This is a matter for the Pension Board
9. The Board should retire its Assets and Liabilities Monitoring Committee and reinforce the interaction between the Committee of Actuaries and the Investments Committee to safeguard the Fund's long-term solvency.	Important		This is a matter for the Pension Board
10. The Board should, in consultation with its Audit Committee, strengthen the criteria for the Committee's membership, its independence and its means to hold the management of the Fund accountable for the accuracy and completeness of the information presented to it.	Important		This is a matter for the Pension Board
11. The Secretary-General should upgrade the Investment Management Division to an office ("Investment Management Office" or similar) to reflect that the responsibilities for the Fund's investments are vested in a full-time Representative of the Secretary-General with the rank of Assistant Secretary-General.	Important		In view of the fact that the role of the Representative of the Secretary-General is now full time at the Assistant Secretary-General level, it would be appropriate to upgrade the Investment Management Division to an Office

Recommendation	Critical[a] or important[b]	Accepted?	Comments
12. The Board should: (a) Separate the roles of its Secretary and the Fund's Chief Executive Officer; (b) Establish its own secretariat that is independent from the management of the Fund; (c) Replace the title of Chief Executive Officer with one that more accurately describes the incumbent's restructured role; (d) Consolidate the committees' secretariats under a unified Board secretariat; (e) Reconstitute the Fund's Executive Office to ensure that it is accountable to both entities of the Fund.	Critical		This is a matter for the Pension Board
13. The Board should: (a) Establish mechanisms to ensure that annual performance evaluations of the Chief Executive Officer and the Deputy Chief Executive Officer are conducted and documented based on clear metrics to hold them accountable for their performance; (b) Ensure that the Fund secretariat's senior management is held accountable for annually appraising the performance of its staff.	Critical		This is a matter for the Pension Board
14. The Board should take effective measures to ensure that the Fund's management sets the appropriate tone at the top with regard to integrity and ethical values.	Critical		This is a matter for the Pension Board

Recommendation	Critical[a] or important[b]	Accepted?	Comments
15. The Board should: (a) Determine the appropriateness of the distribution of resources between programme and support functions; (b) Strengthen monitoring to ensure that the Fund's management utilizes resources in accordance with legislative decisions.	Important		This is a matter for the Pension Board
16. The Board should assess the composition and procedures of the search panel for the Deputy Chief Executive Officer in the light of the deviations in and apparent arbitrariness of the process and determine whether the search should be restarted to ensure the integrity and fairness required in a competitive exercise.	Important		This is a matter for the Pension Board

[a] Addressing critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of the control and/or business objectives under review.

[b] Addressing important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of the control and/or business objectives under review.

K. Recommendations of the representatives of United Nations participants

Recommendation	*Critical or important*	*Accepted?*	*Comments*
1. The Board should:	Important		
(a) Establish clear terms of reference for its members outlining, inter alia, the desirable competencies for their appointment and any appropriate restrictions or limitations;		(a) Yes	(a) Clear terms of reference, but no minimum qualifications, should be established; representatives are elected by the governing bodies or active participants. The only requirement for those elected by participants is that the representatives themselves are participants of the Fund in accordance with article 21, as per article 5 (a). Participants must be free to elect whomever they think would act in their best interest, and usually this comes from actually knowing the candidates or looking at a candidate's platform. It is and must remain a purely democratic process. Implementation: terms of reference by 2020 (or next election cycle if prior);
(b) Establish a term of office for officers of the Board and members that provides for the desired continuity in their service;		(b) No	(b) Terms of office are already established for the Chair and Vice Chairs. These positions are rotated on a yearly basis to maintain a balance across constituencies of the governing bodies, executive heads and participants' representatives. We therefore disagree with the OIOS view in that there is no need for continuity in these roles, as they pertain only to the running of meetings of the Board. Additional duties may also result in overlap with the duties of the Secretary of the Board. Further, frequent rotation should not prevent attainment and retention of institutional knowledge. To this end: • All Board reports should be publicly available • Board members should have access to historical documents to build their knowledge (additional documents from the Fund's knowledge-management system should be made available to Board members)
(c) Review its current methodology for self-evaluation to make the exercise more effective and useful.		(c) Yes	(c) The Board should agree to employ a more useful self-evaluation survey for improved results, such as areas for knowledge transfer from the Fund, as well as acquiring independent advice or training. Implementation in 2019, by the sixty-sixth session of the Board.
2. The Board should: (a) Implement the General Assembly's request to submit proposals for fair and equitable representation of member organizations on the Board to reflect the	Critical	(a) Yes	(a) Implementation: the General Assembly may wish to amend the composition of the Board effective 2019 to reflect active participants in the Fund (see table 1 below);

Recommendation	Critical or important	Accepted?	Comments
actual distribution of active participants in the Fund, present and future trends in Fund participation, and the changing nature of the Fund's member organizations;			
(b) Implement a rotation scheme that allows eligible member organizations to share the rotating seats in a fair and equitable manner.		(b) Yes	(b) The General Assembly may wish to amend the rotation schedule in relation to the new composition effective upon the closure of the Pension Board's sixty-sixth session, in July 2019 (see table 2 below).
3. The Board should:	Important		
(a) Facilitate the election of retiree representatives to ensure the transparent and democratic representation of retirees and their interests;		(a) Yes	(a) Implementation in 2019;
(b) Establish appropriate mechanisms to avoid conflicts of interest between retiree representatives and the Fund's management.		(b) Yes	(b) Implementation in 2019 (the budget for retirees' representatives should be borne pro rata by member organizations and not authorized by the Fund's Chief Executive Officer). In accordance with standard practices, conflicts of interest should be managed on a case-by-case/event-by-event basis throughout the Board. A member, regardless of previous association with the Organization, would not therefore be blocked from becoming a member in another capacity, but would recuse himself or herself when there is an actual conflict for a certain period of time if there is an actual conflict in that instance.
4. The Board should strengthen its governance of the Fund by:	Critical		Starting in the autumn of 2018, the Standing Committee should meet at least every two months to address ongoing operational matters and plan and review reports from the Fund's secretariat, Audit Committee and ad hoc working groups to monitor work being provided by external contractors and to evaluate the performance of the Fund's senior officers. It should also immediately look into urgent matters brought to its attention by staff pension committees or on its own initiative. The Committee or a subcommittee should review appeal cases more promptly. The Standing Committee is regulated by article 4 (c) and section B.4 of the rules of procedure.
(a) Increasing the frequency of meetings of the Standing Committee to provide more effective oversight of the Fund's operations;		(a) Yes	
(b) Entrusting the Standing Committee to act on the Board's behalf during periods when the Board is not in session;		(b) Yes	

Recommendation	Critical or important	Accepted?	Comments
(c) Requiring the Board's other committees and the secretariat of the Fund to periodically submit their reports to the Standing Committee for better oversight and to reduce the burden on the Board's annual sessions.		(c) Yes	
5. The Board should, in consultation with the Secretary-General, strengthen accountability for the services provided by the Fund's secretariat to the United Nations by separating the roles of the Chief Executive Officer and Secretary of the United Nations Staff Pension Committee and establishing an appropriate alternative structure, possibly under the responsibility of the Deputy Chief Executive Officer, to serve as the secretariat of the United Nations Staff Pension Committee	Important	Yes	Gradual implementation by 2020. The strategic framework should be updated and reviewed by the Standing Committee, and the budget starting in 2020 should reflect this reform. The Chief Executive Officer search panel to be established by the Board in 2018 should incorporate the proposed changes, however any changes in the role of the Chief Executive Officer/Secretary should naturally be reflected in the role of the Deputy Chief Executive Officer.
6. The Board should consider establishing standard duration of terms for staff pension committee representatives across member organizations or minimizing the current disparity in terms, which ranged from one to four years.	Important	Yes	The United Nations Staff Pension Committee already conforms to article 6 (b) of the regulations approved by the General Assembly. Article 6 (c) provides that each member organization shall make rules for the election or appointment of the members and alternate members of its staff pension committee. These form the basis for the other member organizations, but article 6 (c) could be amended and be more streamlined with article 6 (b).
7. The Board should, in consultation with the Secretary-General, take measures to enhance the effectiveness of the United Nations Staff Pension Committee in playing its governance role instead of only dealing with disability cases, which could be assigned to a subcommittee.	Important	Yes	Implementation in 2018. As from February 2018, the United Nations Staff Pension Committee has attempted to convene more meetings to discuss governance. Going forward, the meetings to discuss governance issues should be scheduled well in advance to ensure a quorum. Additionally, the processing of disability cases should be further streamlined; the Committee secretariat (legal office) would provide further clarifications to individual members, thereby reducing the number of cases to be discussed in plenary, again leaving more time for governance.
8. The Board should ensure that the Committee of Actuaries invites the Representative of the Secretary-General for the investment of the assets of the Pension	Important	Yes	Implementation in 2018.

Recommendation	*Critical or important*	*Accepted?*	*Comments*
Fund to attend the meetings of the Committee to strengthen coordination between the Committee and the Fund's bifurcated management.			
9. The Board should retire its Assets and Liabilities Monitoring Committee and reinforce the interaction between the Committee of Actuaries and the Investments Committee to safeguard the Fund's long-term solvency.	Important	Yes	The General Assembly may wish to request the Pension Board implen this recommendation as from 2019.
10. The Board should, in consultation with its Audit Committee, strengthen the criteria for the Committee's membership, its independence and its means to hold the management of the Fund accountable for the accuracy and completeness of the information presented to it.	Important	Yes	Implementation in 2018. The Audit Committee should provide reports to the Standing Committee after each meeting, and terms of reference should be updated to strengthen membership criteria.
11. The Secretary-General should upgrade the Investment Management Division to an office ("Investment Management Office" or similar) to reflect that the responsibilities for the Fund's investments are vested in a full-time Representative of the Secretary-General with the rank of Assistant Secretary-General.	Important	Yes	Implementation with the 2020 budget.
12. The Board should:	Critical		
(a) Separate the roles of its Secretary and the Fund's Chief Executive Officer;		(a) Yes	(a)–(c) Implementation by 2020. The strategic framework should be updated and reviewed by the Standing Committee, and the approved budget, starting in 2020, should reflect this reform. The Chief Executive Officer search panel established by the Board in 2018 should consider the proposed changes to the job description;
(b) Establish its own secretariat that is independent from the management of the Fund;		(b) Yes	
(c) Replace the title of Chief Executive Officer with one that more accurately describes the incumbent's restructured role;		(c) Yes	

Recommendation	*Critical or important*	*Accepted?*	*Comments*
(d) Consolidate the committees' secretariats under a unified Board secretariat;		(d) No	(d) There may be no added value in consolidating committee secretariats. This would create another bureaucracy (the Bureau) and increase duplication or overlap of roles of the Chair and the Secretary, which are currently separate. Creating a Bureau would additionally not enhance the equal standing and independence of Board members, but may undermine it further. Confidential personnel information held by organizations on their participants and provided under section B.4 of the Administrative Rules may be diluted. The Secretary of the Board should ensure that all members and members' reasonable requests are treated equally, versus reporting to a Bureau, which would elevate the stature of a few individual board members;
(e) Reconstitute the Fund's Executive Office to ensure that it is accountable to both entities of the Fund.		(e) Yes	(e) Implementation in 2018.
13. The Board should:	Critical		
(a) Establish mechanisms to ensure that annual performance evaluations of the Chief Executive Officer and the Deputy Chief Executive Officer are conducted and documented based on clear metrics to hold them accountable for their performance;			(a) Implementation in 2018;
(b) Ensure that the Fund secretariat's senior management is held accountable for annually appraising the performance of its staff.			(b) Implementation in April 2019. The Board should employ staff surveys for 360-degree evaluation and other performance metrics to evaluate the senior management team.
14. The Board should take effective measures to ensure that the Fund's management sets the appropriate tone at the top with regard to integrity and ethical values.	Critical	Yes	Implementation in 2018. Review management charter, request investigation, request audits.
15. The Board should:	Important	Yes	Implementation in 2018–2019 during budget review.
(a) Determine the appropriateness of the distribution of resources between programme and support functions;			

Recommendation	Critical or important	Accepted?	Comments
(b) Strengthen monitoring to ensure that the Fund's management utilizes resources in accordance with legislative decisions.			
16. The Board should assess the composition and procedures of the search panel for the Deputy Chief Executive Officer in the light of the deviations in and apparent arbitrariness of the process and determine whether the search should be restarted to ensure the integrity and fairness required in a competitive exercise.	Important	Yes	Representatives of United Nations participants have asked search panel members for clarification of the measures undertaken to mitigate the low advertised salary and on conflict of interest. There having been no reply, it seems clear that the process violates rules, procedures and precedents and should be restarted to reduce the risk of legal challenge to the integrity of the process. This comes on top of the legally dubious manner in which the panel was created.

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[a] Addressing critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of the control and/or business objectives under review.

[b] Addressing important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of the control and/or business objectives under review.

Table 1
Proposed composition of the Pension Board as from 2019

New group	*Old group*	*Staff pension committee*	*Number of Fund participants*	*Percentage of participants compared to total*	*Number of Board seats remaining as is*	*Percentage of seats on the Board in 2017*	*Number of seats proportional to active participants*	*Rounded*
I	I	United Nations	87 111	67.92	12	36.36	22.41	21
Subtotal			**87 111**	**67.92**	**12**	**36.36**	**22.41**	**21**
II	II	FAO/WFP	10 318	8.04	3	9.09	2.65	3
		WHO	10 724	8.36	3	9.09	2.76	3
Subtotal			**21 042**	**16.41**	**6**	**18.18**	**5.41**	**6**
III	III	IAEA	2 681	2.09	2	6.06	0.69	1
		ILO	3 706	2.89	2	6.06	0.95	1
		UNESCO	2 412	1.88	2	6.06	0.62	1
		ICAO	798	0.62	2	6.06	0.21	1
	VI	ITU	768	0.60	1	3.03	0.20	–
		UNIDO	669	0.52	1	3.03	0.17	–
		WIPO	1 225	0.96	2	6.06	0.32	1
		International Criminal Court	1 099	0.86	–	0.00	0.28	–
	IV	IOM	4 624	3.61	–	0.00	1.19	1
Subtotal			**17 982**	**14.02**	**12**	**36.36**	**4.63**	**6**
IV	III	IFAD	595	0.46	1	3.03	0.15	–
		IMO	284	0.22	1	3.03	0.07	–
		WMO	351	0.27	1	3.03	0.09	–
		European and Mediterranean Plant Protection Organization	18	0.01	–	0.00	0.00	–
		ICCROM	37	0.03	–	0.00	0.01	–
		International Centre for Genetic Engineering and Biotechnology	168	0.13	–	0.00	0.04	–
		IPU	47	0.04	–	0.00	0.01	–
		International Seabed Authority	35	0.03	–	0.00	0.01	–
		International Tribunal for the Law of the Sea	39	0.03	–	0.00	0.01	–
		World Tourism Organization	91	0.07	–	0.00	0.02	–
		Special Tribunal for Lebanon	462	0.36	–	0.00	0.12	–

New group	*Old group*	*Staff pension committee*	*Number of Fund participants*	*Percentage of participants compared to total*	*Number of Board seats remaining as is*	*Percentage of seats on the Board in 2017*	*Number of seats proportional to active participants*	*Rounded*
IV	V							
	VI							
Subtotal			**2 127**	**1.66**	**3**	**9.09**	**0.55**	**–**
Total			**128 262**	**100.00**	**33**	**100.00**	**33**	**33**

Table 2

Proposed rotation of seats on the Pension Board as from 2019

New group	*Old group*	*Staff pension committee*	*Fund participants*	*Total seats (rounded)*	*2019*			*2020*			*2021*			*2022*			*2023*			*2024*			*2025*			*2026*			*2027*		
					GB	*EH*	*PR*	*GB*	*EH*	*PR*	*GB*	*EH*	*PR*	*GB*	*EH*	*PR*	*GB*	*EH*	*PR*	*GB*	*EH*	*PR*	*GB*	*EH*	*PR*	*GB*	*EH*	*PR*	*GB*	*EH*	*PR*
I	I	United Nations	87 111	21	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Subtotal			**87 111**	**21**																											
II	II	FAO/WFP	10 318	3	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
		WHO	10 724	3	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Subtotal			**21 042**	**6**																											
III	III	IAEA	2 681	1					1								1							1				1			
		ILO	3 706	1		1				1				1				1							1	1					
		UNESCO	2 412	1			1	1							1				1				1				1				
	IV	ICAO	798	1	1							1	1			1				1				1							1
		ITU	768	–		1								1							1				1				1		
		UNIDO	669	–			1				1				1							1	1							1	
		WIPO	1 225	1				1				1							1	1							1				1
	VI	International Criminal Court	1 099	–					1				1				1				1							1	1		
		IOM	4 624	1	1					1	1							1				1				1				1	
Subtotal			**17 982**	**6**																											
VI	III	IFAD	595	–																											
	V	IMO	284	–																											
		WMO	351	–																											
	IV	European and Mediterranean Plant Protection Organization	18	–																											
		ICCROM	37	–																											

New group	Old group	Staff pension committee	Fund participants	Total seats (rounded)	2019			2020			2021			2022			2023			2024			2025			2026			2027		
					GB	EH	PR	GB	EH	PR	GB	EH	PR	GB	EH	PR	GB	EH	PR	GB	EH	PR	GB	EH	PR	GB	EH	PR	GB	EH	PR
		International Centre for Genetic Engineering and Biotechnology	168	–																											
		IPU	47	–																											
		International Seabed Authority	35	–																											
		International Tribunal for the Law of the Sea	39	–																											
		World Tourism Organization	91	–																											
		Special Tribunal for Lebanon	462	–																											
Subtotal			**2 127**	–																											
Total			**128 262**	**33**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**

Abbreviations: EH, executive heads; GB, governing bodies; PR, representatives of participants.

Annex XVIII

Draft resolution proposed for adoption by the General Assembly

[The draft resolution covers those matters discussed in the report of the United Nations Joint Staff Pension Board which require action by the General Assembly, as well as other matters in the report that the Assembly may wish to note in its resolution.]

The General Assembly,

Recalling its resolution 71/265 of 23 December 2016, section XV of its resolution 72/262 A of 24 December 2017 and its resolution 72/266 A of 24 December 2017,

Having considered the report of the United Nations Joint Staff Pension Board for 2018,[a] including the financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2017, the unqualified audit opinion and report of the Board of Auditors thereon, the information provided on the internal audits of the Fund and the observations of the Board and of the Audit Committee, the report of the Secretary-General on the investments of the Fund and the related report of the Advisory Committee on Administrative and Budgetary Questions, and the report of the Secretary-General on the administration of justice at the United Nations,

1. *Takes note* of the report of the United Nations Joint Staff Pension Board for 2018;[a]

2. *Endorses* the recommendations of the Advisory Committee on Administrative and Budgetary Questions, subject to the provisions of the present resolution;

I

Actuarial matters

3. *Takes note* of the results of the actuarial valuation of the United Nations Joint Staff Pension Fund, which revealed a deficit of 0.05 per cent of pensionable remuneration as at 31 December 2017, which is a decline on the surplus of 0.16 revealed by the prior actuarial valuation as at 31 December 2015;

4. *Welcomes* the fact that the Fund remains near actuarial balance, and is therefore in a good financial position;

II

Financial statements of the United Nations Joint Staff Pension Fund and report of the Board of Auditors

5. *Notes* that the Board of Auditors in its report on the United Nations Joint Staff Pension Fund for the year ended 31 December 2017[b] issued an unqualified opinion;

III

Governance and administration

6. *Approves*, in accordance with article 3 (c) of the Regulations of the United Nations Joint Staff Pension Fund, the admission to membership in the Fund of the

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[a] *Official Records of the General Assembly, Seventy-third Session, Supplement No. 9* (A/73/9).

[b] Ibid., *Supplement No. 5P* (A/73/5/Add.16).

Preparatory Commission for the Comprehensive Nuclear Test-Ban Treaty Organization as from 1 January 2019;

7. *Concurs*, in accordance with article 13 of the Regulations of the United Nations Joint Staff Pension Fund, and with a view to securing the continuity of pension rights, with the new transfer agreement of the Fund and the African Development Bank, as approved by the United Nations Joint Staff Pension Board and set out in annex XIII to the report of the Pension Board on its sixty-fifth session, which will become effective on 1 January 2019;

8. *Approves* the amendments to articles 4, 6, 30, 32 and 48 of the Regulations of the Fund as recommended by the Pension Board and set out in annex XI to the report of the Board, to clarify the scope of the application of the Regulations and the Administrative Rules, in accordance with past decisions adopted by the Board and the General Assembly;

9. *Also approves* the amendment to article 46 of the Regulations to adopt in the Regulations a limitation on the period for claims in respect of lump sum payments, including withdrawal settlements, and monthly periodic benefits as set out in annex XI to the report of the Pension Board;

10. *Further approves* the exception to article 15 (b) of the Regulations to effect a change from the biennial to an annual budget for the Fund on a trial basis, subject to the follow-up review by the Secretary-General in 2022 and the review by the General Assembly at its seventh-seventh session;

11. *Takes note* of the amendments to the rules of procedure of the Fund, as set out in annex XII to the report of the Pension Board, to reflect the practice approved by the Board in 2015 for signature of a declaration on confidentiality and conflict of interest by those attending each regular and special session of the Board;

12. *Also takes note* of the recommendations of the Office of Internal Oversight Services and the comments of the Pension Board thereon in regard to the governance audit requested by the General Assembly in section XV, paragraph 8, of its resolution 72/262 A;

IV
Investments of the United Nations Joint Staff Pension Fund

13. *Takes note* of the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund and the observations of the United Nations Joint Staff Pension Board, as set out in its report.

Annex XIX

Notes submitted by representatives of the United Nations participants in the Pension Fund and the Federation of Associations of Former International Civil Servants on the representation of retirees on the Pension Board

A. Note by the representatives of the United Nations participants

1. The representatives of the participants in the United Nations Joint Staff Pension Fund are of the opinion that the Fund's retirees should be represented on the Board by a democratic process in the same manner as are representatives elected by the General Assembly and other governing bodies and representatives elected by participants of the various member organizations to their staff pension committees.

2. The representatives of the participants in the Fund believe that their fiduciary duties extend to all current and future beneficiaries of the Fund, however they recognize that those retirees who are permitted to attend meetings of the Board and its committees — albeit not in a voting capacity — should be elected in a democratic process where retirees are able to choose individuals who they believe would act in their exclusive interest.

3. In 2002 the Standing Committee decided to increase from four to six the number of FAFICS members allowed to attend meetings of the Board. While it has been stated that FAFICS sees as its mission the representation of the interests of all retirees and beneficiaries participating in the Fund, the audit of the governance of the Fund by OIOS highlighted a number of cases where the current arrangement results in a conflict of interest

4. Furthermore, the participants' representatives are of the opinion that FAFICS, as a federation of retiree associations, should be treated like the other federations, CCISUA, FICSA and UNISERV, and should be invited to attend the Board in the capacity of "observer" in accordance with section A.9 (f) of the rules of procedure.

5. A section of the 2006 report of the working group on the size and composition of the Pension Board and Standing Committee focused on retirees. The group had considered a possible process for due election that would allow retirees and other beneficiaries to be represented through membership on the Board.

6. Retirees participating in that working group recognized the difficulties inherent in a proposal outside the tripartite configuration of the Board, and therefore agreed to a compromise that would provide a degree of formal recognition; i.e., the Board would agree to pay the costs related to the participation of two retirees in the Board and one in the Standing Committee, on a provisional basis until 2008.

7. In 2007, at its fifty-fourth session, the Board considered a study on the possible process for the election of retirees' representatives, based on its endorsement the previous year of the recommendations of the working group on the size and composition of the Board. The study affirmed the view of the Chief Executive Officer that until such time as retirees were granted full membership on the Board, their representation and the selection of the representatives should continue to be done by FAFICS, in consultation with the Chief Executive Officer of the Pension Fund.

8. On 5 March 2018, 297 United Nations retirees participating in the Fund signed a letter addressed to the Under-Secretary-General for Internal Oversight Services concerning United Nations retiree representation on the Pension Board, in which they raised concerns about the legitimacy of representation, equitable representation and

non-transparency and undemocratic practices in the Association of Former International Civil Servants.

9. The FAFICS president sent a pre-emptive rebuttal letter to the Under-Secretary-General for Internal Oversight Services on 4 March 2018, requesting, inter alia, that the Under-Secretary-General not allow OIOS to interfere in the individual governance of a respected retiree body.

10. Upon the request of the General Assembly, OIOS has performed an audit of the governance of the Fund highlighting the fact that FAFICS members were not elected through a democratic process and recommended that the Fund facilitate the election of retiree representatives to ensure the transparent and democratic representation of retirees and their interests.

11. Notwithstanding the fact that it is fiduciary duty of each and every member of the Board to act in the interest of all participants and beneficiaries of the Fund, the foregoing background shows the need to ensure fair and legitimate retiree representation as soon as possible.

12. Therefore, it is requested that the Board establish a working group to finalize a process for the election of representatives by retirees. The working group would report to the Standing Committee of the Board at its first meeting in 2019, with a view to having elections prior to the sixty-sixth session of the Board.

B. Note by the Federation of Former International Civil Servants

Introduction

The present note addresses proposals made with regard to the representation of retirees on the Pension Board. Reference is made to the OIOS audit report and the note submitted by representatives of the United Nations participants regarding the election of retirees to the Board.

FAFICS strongly rejects both the OIOS recommendations pertaining to FAFICS and the content of the document submitted by the United Nations representatives. FAFICS considers that they have exceeded their respective mandates by attempting to interfere in the internal working arrangements of an autonomous body. The claim by the authors that their fiduciary duties extend to all future beneficiaries of the Fund is specious.

FAFICS is an independent representative body with its own statutes, rules of procedure and established standing as a non-governmental organization in consultative status with the Economic and Social Council. As such it is neither a subsidiary of the Pension Board nor part of the General Assembly machinery. Consequently, it is not within the authority of the Board or the Assembly to establish requirements for retirees to select its own retiree representatives. The process for the selection of its representatives remains the sole prerogative of FAFICS.

Background information on the establishment of the Federation

In 1971, three existing retiree associations, the Associations of Former International Civil Servants in Geneva and New York and the Former FAO and Other United Nations Staff Association in Rome, decided that it was essential to form a federation, in particular because of the need to introduce the voice of the pensioners in the United Nations Joint Staff Pension Fund.

As result of those efforts, the Pension Board agreed to hear a representative of the three associations. On 23 July 1971, the representative of the three associations addressed the Pension Board, remarking that, as the Chair had indicated, the three associations had decided to establish a Federation, which would appoint a representative and an alternate as observers at the meetings of the Board. The Chair pointed out that there had been a degree of distress among retirees of the United Nations family, who had felt that after having spent a lifetime serving an ideal, they had been left high and dry, without any possibility of playing any part in matters that concerned them directly. This applied in particular to questions relating to pensions.

During the years 1972–1974, the three associations coordinated the protection and representation of common interest and organized exchanges of information. They sought access in an observer capacity to meetings of the Pension Board and its Standing Committee. The Board agreed to their attendance at meetings on an ad hoc basis; as observers, they could address the Board on pension issues and related problems, including the matter of their representative status on the Board.

During the period 1975–1979, FAFICS established a structured federation, and the FAFICS Council adopted common positions, guidelines and statutes. Since then, FAFICS has persevered in creating new retiree associations and by 31 December 2017 had 61 member associations in 59 countries, with some 18,500 retirees and beneficiaries. At its Council session held in July 2018, FAFICS admitted 2 more associations, bringing the total number of member associations to 63.

The main objective of FAFICS is to represent and protect the interests of former international civil servants in relevant bodies of the United Nations system and retirees and beneficiaries of the United Nations Joint Staff Pension Fund. FAFICS has also always stood ready to intervene on all issues affecting individual and/or groups of pensioners and beneficiaries and also to assist non-member associations on pension matters.

The Federation and the Pension Board

In 2001, the Standing Committee, following the withdrawal of the Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade from membership in the Fund in 1998, considered a study by the Chief Executive Officer/Secretary on the size and composition of the Board and the Standing Committee, including the number of representatives and alternates to be authorized for FAFICS.

The Committee discussed possible changes in the Fund's rules of procedure in response to the FAFICS request to send four representatives and two alternates to Board sessions and two representatives and two alternates to Standing Committee meetings, commencing with the Board in 2002. FAFICS noted that at that time there were over 48,000 beneficiaries covered by the Pension Fund, equalling 39 per cent of the total number of participants and beneficiaries.

Following discussion of the FAFICS request, the Committee decided to amend the Fund's rules of procedure, authorizing FAFICS to send four representatives and two alternates to the Pension Board and two representatives and two alternates to the Standing Committee.

In 2003, the Standing Committee established a working group to undertake a review of the size and composition of the Board and its Standing Committee. The working group submitted its final report to the Board in 2006.

In its report, the working group also addressed the issue of representation of retirees on the Board, stating that it had agreed that it would need to reach a general understanding as to the formal representation of retirees and other beneficiaries on the Board and on possible methods of improving the work of the Board. Addressing the retirees first, the group had considered a possible process for due election that would allow retirees and other beneficiaries to be presented through membership on the Board. It noted that should the Board support any proposal for granting membership to the retirees and other beneficiaries through elections, the related operational issues, processes and legal safeguards would need to be addressed at the outset by the secretariat of the Fund. The working group recognized that such an undertaking would require significant efforts by the secretariat and would most likely require additional resources. Recalling the Board's recent comments, however, which expressed a strong preference for strict adherence to the tripartite and equal arrangement, the group recognized that compromise in this matter would likely be required. Although the FAFICS representation on the working group preferred to maintain the proposal to include two retiree representatives as formal voting members of the Board (i.e. outside the regular tripartite configuration), they recognized the difficulties inherent in such a proposal as expressed during the Board meetings in 2004. With this in mind, FAFICS considered that, should the Board agree to cover the costs of two retiree representatives on a provisional basis, it could provide for a degree of formal recognition on the Board of the retirees and other beneficiaries. Such costs would be shared as an expense of the Board (i.e. on a pro rata basis).

After extensive discussion on the basis of the final report of the working group, the Board decided that the costs related to two retiree representatives attending the Board would be shared as an expense of the Board (on a pro rata basis) as proposed in the report of the working group. More specifically, the Board decided that as part of the current total FAFICS representation to the Board (i.e. four representatives and two alternate representatives), two retiree representatives could be put forth by FAFICS, in consultation with the Chief Executive Officer. The costs for the two representatives would be covered as an expense of the Board, and the costs in respect of the remaining FAFICS representatives, which would comprise two representatives and two alternates, would be covered by FAFICS. The Board decided that similar arrangements would need to be decided upon in respect to the Standing Committee. Those arrangements would be considered provisionally until the 2008 session of the Board, at which time the Board would need to consider more appropriate means for duly electing the representatives for all retirees and other beneficiaries to the Board (including holding elections). Once the arrangements are agreed upon, article A.9 (e) of the rules of procedure would be revised accordingly.

The Federation of Former International Civil Servants: the sole legitimate representative organization of Pension Fund retirees

In the draft audit report, OIOS stated that FAFICS continued to sit on the Board in a non-voting capacity even though it represented only 18,500 beneficiaries (approximately 25 per cent) of a total beneficiary population of 74,788 as at 31 December 2016.

OIOS did not, however, apply the same flawed logic to the representatives of the United Nations participants on the Pension Board, who are elected by a similar percentage of its total membership. More specifically, in April 2017, the representatives of the participants on the Staff Pension Committee were elected by 17,846 staff members out of 71,171 staff eligible to vote; this represented 25.07 per cent of the total number of United Nations participants, yet the participants' representatives on the Committee claim to represent all 71,171 Pension Fund participants. Moreover, their claim is not disputed by their own members or other Pension Board stakeholders, even though they do not represent 71,171 voters. FAFICS maintains that if a 25 per cent voting participation is sufficient to constitute it as a representative organization, the same criteria apply, mutatis mutandis, to FAFICS.

Further, OIOS did not take account of the fact that FAFICS, due to strict confidentiality requirements for personal data, has no access to contact information or means of contact with Pension Fund retirees who do not belong to any of its member associations, even though member associations of FAFICS are open to all Pension Fund retirees and beneficiaries. This makes it extremely difficult to identify them, approach them and invite them to join a retiree association.

Representation of the Federation on the Board

OIOS, in its objective of reducing the representation of FAFICS, introduced a fallacious new argument for reducing the number of retiree representatives on the Board. It argued that under a defined benefit pension plan, beneficiaries are guaranteed their benefits, whereas active participants are exposed to a higher degree of uncertainty in relation to the Pension Fund's long-term financial health and sustainability. It is the participants, not the beneficiaries, who would have to bridge the funding gap if the Pension Fund anticipates significant deficits. Therefore, such pension plans must have a proportionately larger representation of active participants on the Board than beneficiaries. Examples from governance structures of large public sector defined benefit pension funds indicate that beneficiary representation is limited to one or two seats. OIOS is of the view that the Board needs to determine the appropriate number of seats to be allotted, with voting rights, to the representatives of beneficiaries who are directly elected through a transparent and democratic process similar to the representatives of participants so that elected individuals are accountable to beneficiaries and fully represent their interests.

The statement that it is the participants, not the beneficiaries, who would have to bridge the funding gap if the Pension Fund anticipates significant deficits is manifestly wrong. Article 26 of the Fund's Regulations reads as follows:

> **Deficiency payments**
>
> (a) In the event that an actuarial valuation of the Fund shows that its assets may not sufficient to meet its liabilities under these Regulations, there shall be paid into the Fund by each member organization the sum necessary to make good the deficiency.
>
> (b) Each member organization shall, subject to (c) below, contribute to this sum an amount proportionate to the total contributions which each paid under article 25 during the three years preceding the valuation date.
>
> (c) The contribution of an organization admitted to membership less than three years prior to the valuation date shall be determined by the Board.

Furthermore, in 1982/83, when the Fund experienced a significant actuarial deficit, all constituent groups of the Fund, including retirees, were obliged to accept cost-reduction measures to eliminate the actuarial imbalance of the Fund. This was recognized by the General Assembly in its resolution 37/131, in which it made reference to "the unanimous proposals made by the Board in response to the request of the General Assembly to undertake a comprehensive analysis of all possible measures to improve the actuarial balance of the Fund, bearing in mind the views expressed in the Fifth Committee", and observed that "a cooperative effort by member organizations, participants and beneficiaries — sharing equitably the burdens such measures may impose on them — is required if the actuarial imbalance is to be reduced significantly".

It is evident from the foregoing passages that the conclusion of OIOS that the participants must have a larger representation than beneficiaries has no foundation and is based on false premises. Further, OIOS does not identify the examples from governance structures of large public sector defined benefit funds that allegedly limit their beneficiary representation to one or two seats, nor is this supported by facts. To which public pension funds does OIOS refer? What is the size of their boards? How many seats do the participants on those boards have?

More notable is that the argument of OIOS contradicts the findings of the working group on the size and composition of the Board, which stated in its report that during its deliberations, the working group had recalled the review on the governance of other funds that it had carried out in the context of its initial report and the trend in some organizations to strengthen the representation of pensioners on plan management boards and member councils.

The United Nations Joint Staff Pension Fund cannot easily be likened to other pension funds because it is unique. It is a global fund with 23 member organizations operating in over 190 countries and in multiple currencies. It can hardly be compared with any other public (national) pension fund, which faces lesser challenges in national representation than does FAFICS in global representation of more than 60 national associations.

Direct elections of retiree representatives to the Pension Board

In 2007, the Chief Executive Officer/Secretary submitted to the Board a study on a possible process for the election of retiree representatives, in which the issue of elections of retiree representatives was addressed. The study stated that theoretically, FAFICS could arrange for worldwide direct elections, with voting by all the members of the associations within the umbrella of FAFICS. However, FAFICS had no information or contact with Pension Fund retirees/beneficiaries who did not belong to any of its member associations. Only the Fund secretariat possessed accurate records of all Pension Fund retirees/beneficiaries, due to a strict rule of confidentiality (section B.4 of the administrative rules of the Pension Fund), information in those records generally cannot be provided to third parties (including FAFICS) without prior written authorization from the persons concerned. Consequently, any worldwide elections involving potentially all Pension Fund retirees/beneficiaries would have to be conducted under the auspices of the Fund secretariat. The study further noted that, because of the lack of specialized expertise and the need to avoid even the appearance of a conflict of interest, the Fund secretariat could not be asked to conduct any worldwide elections of representatives Pension Fund retirees/beneficiaries who would hold member seats on the Board or its Standing Committee. This would have to be done by an outside company with experience in the conduct of similar elections, raising the issue that confidential pensioner information — name, address and pension number — would have to be provided to that company, for a defined, limited period.

After considering the issue of holding elections for retiree representatives to the Board, the Board decided to defer consideration of the question of whether and in what manner to conduct elections of retirees' representatives to the Board. The Chief Executive Officer was requested to communicate in his annual letter to retirees and beneficiaries the Board's decision to maintain the current arrangement for FAFICS participation in meetings of the Board and its Standing Committee.

OIOS recommends that retiree representatives be directly elected through a transparent and democratic process similar to the way in which the representatives of the participants are elected so that elected individuals are accountable to beneficiaries and fully represent their interests.

In recommending the direct election of representatives of retirees and beneficiaries, OIOS appears to confuse the concept of direct elections with democracy. Democracies encompass both direct and indirect electoral arrangements. Direct elections of retiree representatives to the Pension Board, envisaged to be held independent of Associations of Former International Civil Servants and of their Federation (FAFICS), would deprive electors of the opportunity to assess candidates and issues in the context of their deliberative councils and committees. The present arrangements for elections ensure that all questions of substance are the subject of informed consent about retiree matters at the levels of Associations of Former International Civil Servants and FAFICS. Direct elections would in fact impoverish the contribution which retirees are currently able to make to the Board's governance processes.

FAFICS has an established procedure for the appointment of its delegation to the Pension Board.

The FAFICS representatives are accountable for defending the Federation's positions before the Pension Board. They must report to the 63 member associations on the outcome of the Pension Board session and the positions adopted on behalf of the Federation.

Furthermore, FAFICS has a Standing Committee on pension issues, which meets immediately prior to the meeting of the FAFICS Council. The terms of reference of the Standing Committee are to discuss pension matters and, in particular, develop the Federation's positions on the issues on the agenda of the Pension Board. Participation in the meetings of the Standing Committee is open to all member associations.

The Chair and Vice-Chair submit documents on all items on the Committee's agenda. Those documents are distributed in advance to all member associations of FAFICS for their consideration.

The Standing Committee produces a report that is submitted to the Council, which considers the report and adopts the positions to be taken by the FAFICS representatives attending the session of the Pension Board. Thus, there is full transparency in the policymaking process.

Direct worldwide elections of retiree representatives on the Pension Board would be a particularly challenging undertaking, involving complex and expensive logistics. Establishing direct elections would require the Board to pay particular attention to the very real constraints, many of which were already flagged in a 2007 document which studied the possible process for elections.

Rule A.2 of the rules of procedure of the Pension Board specifies that before each regular session of the Board, the Secretaries of the staff pension committees shall notify the Secretary of the Board of the names of the persons appointed by the committees as members and alternate members of the Board in accordance with article 5. Currently, it is FAFICS which notifies the Secretary of the names of the FAFICS representatives on the Board. In the case of direct election of individual representatives, under whose authority would this fall?

More specifically, how would the Board deal with the following issues:

- Resources to carry out a global operation across some 190 countries
- Confidential pensioner information — name, address and pension number — cannot be provided to a third party without prior written authorization from the persons concerned
- Need to establish rules of procedure regulating the process for worldwide elections
- Periodicity of the election, date of first election
- Appointment of polling officers
- Responsibility of the polling officers for the conduct of the elections, and full cooperation of the Pension Fund secretariat in conducting the elections

- Criteria to be met for being considered as potential voter and for standing as a candidate
- Form of the ballot paper, including linguistic versions, provisions for electronic voting, but not as an exclusive means of voting. A large proportion of aged retirees and beneficiaries do not, or cannot, use electronic tools
- Communication of results and provisions for challenging the process as well as the results

The OIOS expectation that elected individuals would be accountable to beneficiaries and fully represent their interests is unrealistic. How would an individual representative even ascertain what the interests of retirees/beneficiaries were? The representative would have no means to communicate with over 74,000 retirees/beneficiaries. The consequence of direct elections of individual representatives would be that a well-established representation of the interests of retirees/beneficiaries would be destroyed.

Concluding remarks

FAFICS has a 47-year history of representation on the Pension Board, representation which throughout these many years has been democratic, participatory and highly representative. In its detailed audit report as well as in the second revised draft report, the most recent report available at the time of this writing, OIOS made a number of assertions which are factually wrong, and even defamatory (e.g. regarding the appearance of collusion with the Chief Executive Officer). To quote a personal opinion of an outgoing president of an association of former international civil servants in an internal letter to the members of her association and use it without any evidence whatsoever as confirmation that FAFICS was engaged in protecting the interest of the Chief Executive Officer instead of retirees is unacceptable, unprofessional and not in line with international standards of internal audit. Normal civil discourse is the lifeblood of democratic institutions and labelling contacts between FAFICS and the Chief Executive Officer "collusion" indicate an inability on the part of OIOS to understand and appreciate normal working methods.

There are many other biased and erroneous conclusions by OIOS in the second draft audit report. Another example is the statement that, based on a proposal made by FAFICS in 2017, the Board approved an amendment to the rules of procedure and terms of reference for staff pension committees and their Secretaries to allow for two retiree representatives to attend the meetings of staff pension committees, which are essentially a forum for participants, and that this further increased the influence of FAFICS in the Fund's governance. In this context, the OIOS statement about an increase in the influence of FAFICS is meant to be seen as a bad thing. Does OIOS profess to determine for the Pension Board and the General Assembly what constitutes a due or appropriate amount of influence for FAFICS? Such a characterization demonstrates a clear lack of understanding of the meaning of the term governance, the very subject of the audit.

With reference to other comments, FAFICS informed OIOS that the retiree representatives on staff pension committees were elected/appointed by the applicable retiree association of former staff members of the member organization and not by FAFICS, a further example of OIOS riding roughshod over the facts as it maintained this inaccurate paragraph in the draft audit report despite having been apprised of this serious error in the first round.

Similar errors abound in the report, for example, the OIOS insistence that FAFICS underestimated the so-called backlog in its January 2018 internal letter to its constituents despite having provided proof to the contrary, and a mischaracterization of some 15,000 pending cases relating to retirees, their survivors or transfer requiring follow-up, when it was well understood that the vast majority of these "pending cases" pertained to staff who had left the Fund without providing forwarding addresses and therefore could not be found. The same January 2018 letter from FAFICS to its constituents repeatedly cited in the OIOS audit erroneously states that FAFICS had questioned the General Assembly's authority to undertake a governance review without prior discussion with the Board, when in fact it questioned its ability to do so without, inter alia, first attending a Pension Board meeting. All of the above mistakes are not minor or negligible, but rather attempts to mislead readers into forming a negative view of FAFICS that does not conform to reality.

In light of the foregoing, as well as the extensive comments on the first draft audit provided to OIOS, which were largely ignored, FAFICS considers the section entitled "Representation of beneficiaries" in the second draft audit report to be superficial, highly biased, fundamentally unprofessional and replete with error. Therefore, implementing the OIOS recommendations would run counter to the effective representation of the interests of retirees and beneficiaries. FAFICS still exists after 47 years, with the number of its member associations increasing yearly, because it has fulfilled and continues to fulfil its essential role in defending the interests of retirees before the Pension Board.

Consequently, FAFICS rejects in their entirety OIOS recommendations 3 and 4 and the content of the document submitted by the representatives of the United Nations participants.